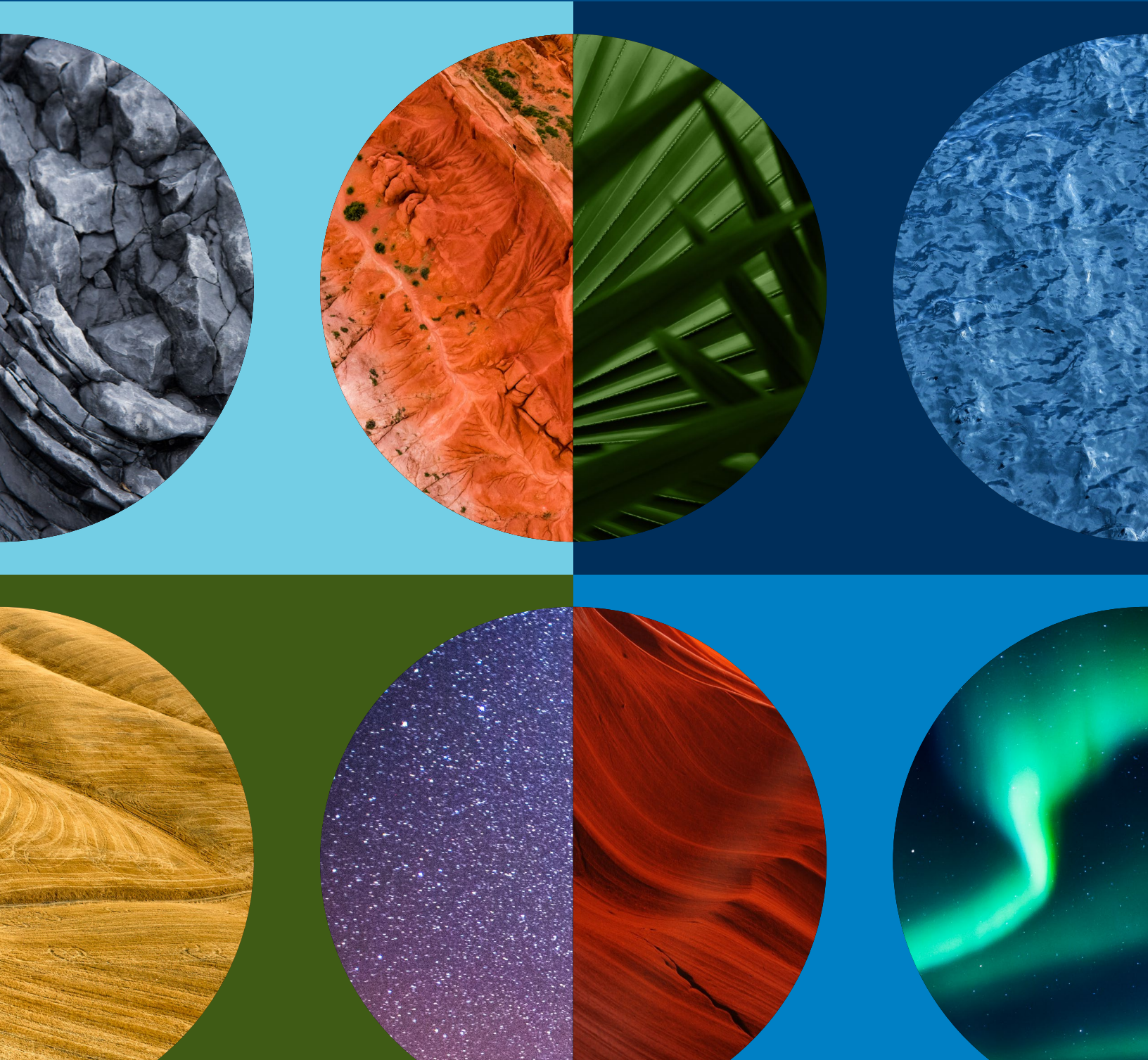


UK Stewardship Report

October 2024





2024 Stewardship Report

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Foreword

For more than 50 years, Western Asset has been committed to delivering superior risk-adjusted returns to clients. Founded in 1971, our Firm has offices in nine locations around the world, each reflecting its own unique local culture. We offer a broad range of investment strategies for a diverse set of clients and invest across an equally wide range of fixed-income instruments.

We focus on our fiduciary duties to help clients meet their investment objectives, and our stewardship approach, rooted in our long-term investment approach, seeks to deliver value to our clients. We have been enhancing our stewardship approach by integrating what we believe to be financially material environmental, social and governance (ESG) considerations that may impact long-term issuer creditworthiness and the performance of fixed-income investment portfolios. We believe that understanding financially material ESG factors can play an important role in delivering long-term value.

This commitment is illustrated by our five guiding principles:

1. We put clients first in everything we do.
2. We foster a team-based culture of collaboration and diversity, working together to enhance the quality of our investment thinking and decision-making.
3. We offer globally integrated capabilities and expertise that improve our ability to diversify investments.
4. We integrate risk management as a critical part of our successful portfolio management process.
5. We focus on active fixed-income to provide superior investment capabilities and service—and to enhance the long-term, risk-adjusted performance of our portfolios.

We maintain infrastructure and policies that enable us to satisfy our obligations, work to strengthen areas that are less mature and evolve other areas as necessary, all rooted in the above guiding principles.

Our approach to stewardship builds on these foundational principles and is integral to our investment philosophy. In addition to weighing broad-range investment risks, we also integrate financially material ESG factors into our analysis of debt issuers across different fixed-income sectors. Experienced research analysts include financially material ESG considerations as part of the Firm's general research process, applying proprietary sector-specific frameworks that take both ESG factors and traditional metrics into account. Portfolio managers synthesise the fundamental value opinions of the research analysts with the input of traders and risk managers to construct portfolios that address each client's objectives.



As stewards of our clients' capital, we seek to partner with them to help them meet their goals. We understand and deeply appreciate that our clients' requirements and targets on sustainability vary widely and are subject to different regulations in each jurisdiction. Given the variety of investment and sustainability needs among diverse clients, we continually seek opportunities for sharing best practices, transferring knowledge and designing customised solutions. Ultimately, these diverse investment needs drive the development of our solutions, keeping our focus on long-term value and diversified strategies. Western Asset continues to develop a variety of proprietary sustainable investing solutions for clients with more specific sustainable investment objectives and will continue to do so as the ESG landscape evolves.

I welcome your interest in our stewardship approach and the work that we have accomplished in 2023/2024. Should you have any questions, please reach out to your Western Asset representative.

Michael B. Zelouf, CFA

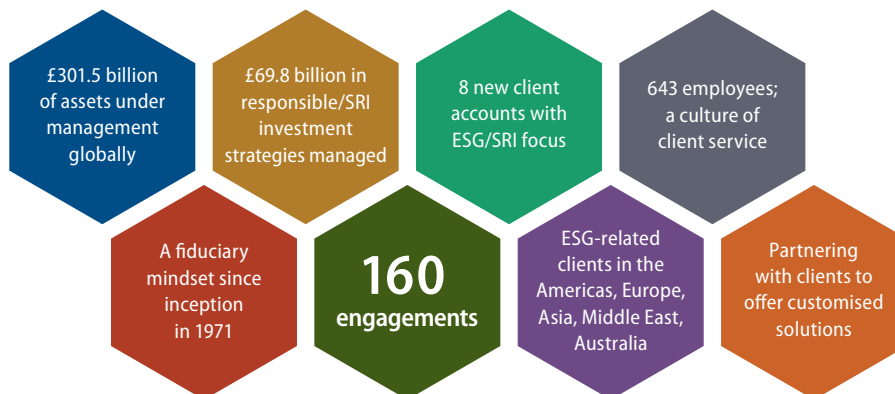
Head of London Office, Western Asset Management Company Limited



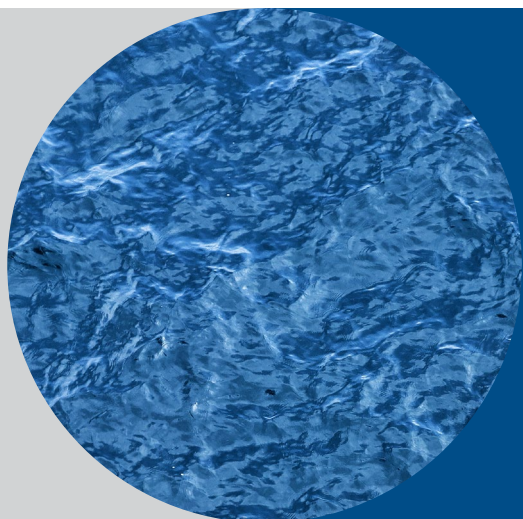
"At Western Asset, we understand the importance that our clients place on their managers integrating their sustainable investment goals into their fixed-income portfolios while meeting their investment objectives. As responsible stewards we continue to put our clients first, engage with issuers and align with regulatory expectations."

– Michael B. Zelouf, CFA

Reporting Period in Numbers: 1 July 2023 – 30 June 2024



“Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.”

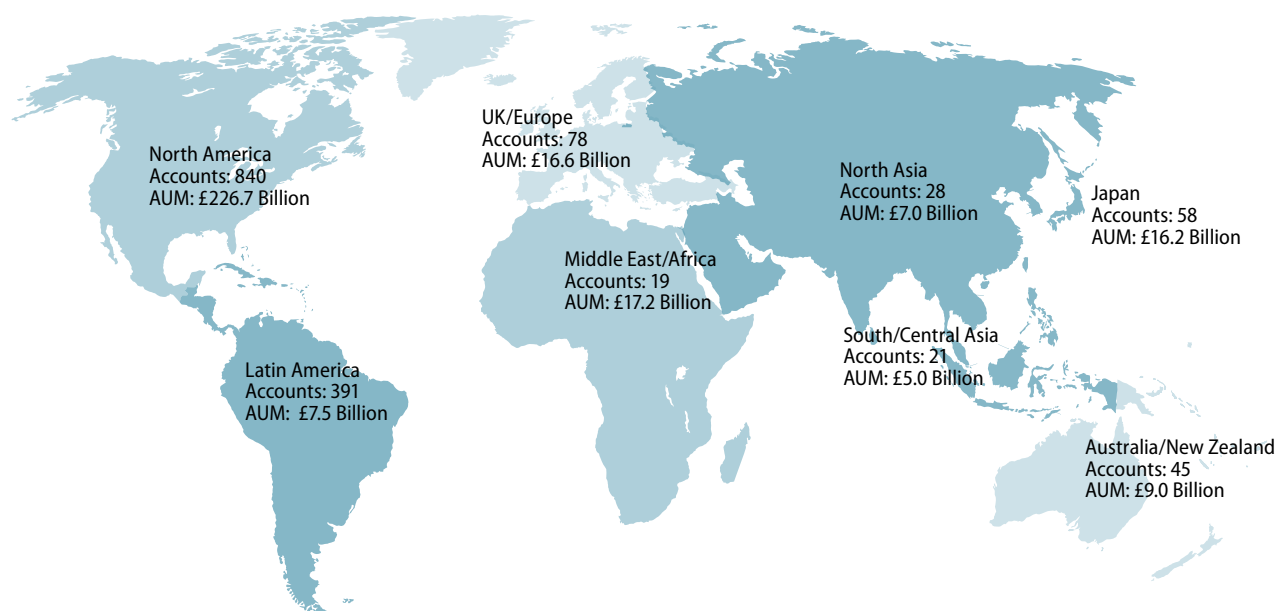


“Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.”

Our Purpose

Western Asset¹ is one of the world’s leading investment management firms. Our mission is to remain a leader in diversified fixed-income investment management with integrated global operations. We maintain uncompromising standards of excellence and ethics in all aspects of our business. The Firm’s client base primarily includes professional investors, retirement plan and pension plan sponsors, fund selectors, and investment advisers. As these clients have a wide range of investing objectives and needs, we foster collaborative working relationships to help them realise their goals, including the creation of customised guidelines tailored to specific return objectives, risk tolerances, investment horizons and liquidity needs.

Western Asset Assets Under Management (AUM) and Client Accounts by Client Region



Western Asset at a Glance

- Founded in 1971. Specialist Investment Manager of Franklin Resources, Inc. since 31 Jul 2020
- Fixed-income value investors
- £301.5 billion (GBP) AUM
- £258.3 billion (GBP) long-term assets
- £43.2 billion (GBP) cash and cash equivalent assets
- 643 employees

As of 30 Jun 2024.

Organisational Pillars

- Clients first
- Globally integrated
- Team-based
- Active fixed-income
- Integrated risk management

AUM by Sector Total £305.2 billion (GBP)

- | | |
|-------------------------------------|-----|
| ▪ Global Investment Grade Corporate | £91 |
| ▪ MBS/ABS | £53 |
| ▪ Cash & Cash Equivalents | £43 |
| ▪ Sovereign, Treasuries, Agencies | £41 |
| ▪ Emerging Market Debt | £23 |
| ▪ Local Authority & Municipals | £16 |
| ▪ Global High Yield | £14 |
| ▪ Global Inflation-Linked | £2 |
| ▪ Other | £19 |

¹ Western Asset is a global investment asset management firm comprised of six legal entities: Western Asset Management Company, LLC (Pasadena and New York); Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada (São Paulo); Western Asset Management Company Limited (London and Zurich); Western Asset Management Company Pte. Ltd. (Singapore); Western Asset Management Company Ltd (Tokyo); and Western Asset Management Company Pty Ltd (Melbourne).

Our Investment Philosophy

Long-term fundamental value investing has been at the core of Western Asset's investment philosophy since its inception, with the principles of responsible stewardship playing an essential role in our process and culture:

- **Markets often misprice securities.** Prices can deviate from fundamental fair value, but over time, they adjust to reflect inflation, credit quality fundamentals and liquidity conditions. Consistently investing in undervalued securities can deliver superior investment returns.
- **We seek to systematically identify mispricings** and to identify and capitalise on markets and securities that are priced below fundamental fair value. We do this through disciplined and rigorous analysis, comparing prices to the fundamental fair values estimated by our macroeconomic and credit research teams around the globe.
- **Our portfolios emphasise our highest convictions.** The greater the difference between our view of fair value and the markets' pricing, the bigger the potential value opportunity. The greater the degree of confidence in its view of fundamentals, the greater the emphasis of the strategy in our portfolios.

Multiple Diversified Strategies

We seek diversified sources of returns. Our objective is to meet or exceed our investors' performance objectives within their tolerances for risk. We seek to diversify investments and add value across interest-rate duration, yield curve, sector allocation, security selection, country and currency strategies. We deploy multiple diversified strategies that benefit in different environments so no one strategy dominates performance, helping to dampen volatility.

Risk Management

Risk management is an integral part of our portfolio management. At Western Asset, this is a team effort involving client service executives, risk managers and portfolio managers, who work together to understand client risk tolerances and to construct portfolios that seek to achieve our clients' objectives while remaining within those parameters. After understanding and quantifying these objectives and tolerances, Western Asset analyses current and potential risks in client mandates, as well as in other portfolio constructs that portfolio managers may be considering. Western Asset then assesses the risks to see that they are appropriately rewarded.

Exposures that lead to risk without reward should be limited or hedged, when possible, in line with client investment guidelines applicable to a specific mandate. Western Asset seeks to align risk exposures so they are sized appropriately for the client's objectives and risk tolerances.

To do this effectively, a strong flow of communication between risk managers and portfolio managers is essential. Western Asset's Risk Management & Quantitative Solutions Department (the Risk Management Team) is independent from the Investment Management Team and therefore provides an important counterbalance. Members of the Risk Management and Investment Management Teams collaborate and communicate regularly in person, in formal meetings, and electronically. This collaboration results in an integrated risk management platform within the Firm's global team environment. Account specific risk limits, set out at the inception of an account, form the basis for Western Asset's risk monitoring warning level process, and utilise escalating trigger points to incite portfolio manager action.

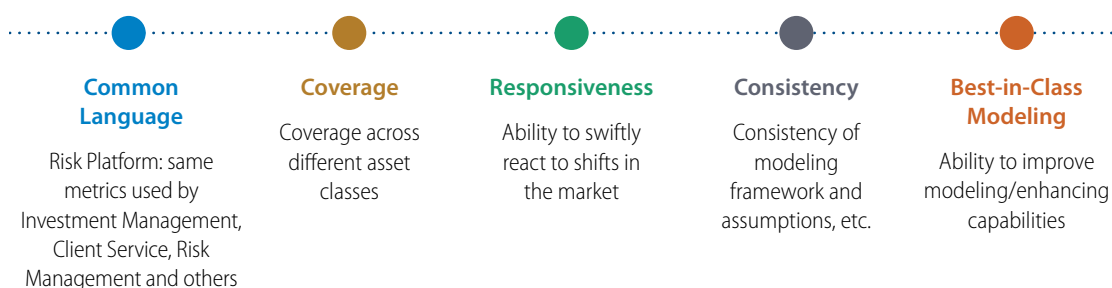
Western Asset believes that material E, S and G considerations—such as the physical and transition risks of climate change and environmental management, product safety and security, health and injury risks, shifts

in consumer sentiment, human rights and supply-chain management, transparency in reporting, as well as good corporate governance and management—are key factors that should form part of an issuer’s assessment. Therefore, the Firm’s research analysts have designed ESG frameworks that identify such E, S and G risks across sovereigns, various credit sectors and securitised fixed-income asset classes.

As part of the Firm’s comprehensive risk management capabilities, Western Asset has developed a proprietary fixed-income methodology that can be utilised to conduct climate stress tests on client portfolios.

These climate stress tests are designed to help the team understand and estimate the impact of climate-related risks in a variety of scenarios. The Risk Management Team has also developed an optimiser tool that proposes asset swaps within a portfolio to achieve lower carbon intensity while maintaining other risk characteristics such as duration, yield and sector exposure. The optimiser may be utilised on a number of different Western Asset investment strategies

WISER—A Multi-Factor Risk Management System Built by Western Asset



During the Reporting Year (July 1, 2023, to June 30, 2024), the Firm published its inaugural Taskforce on Climate-related Financial Disclosures (TCFD) Report, which provides an overview, in line with the regulatory standards, how the Firm’s governance and strategy consider and seek to mitigate climate risks in client portfolios, where applicable.

ESG Philosophy

As a fundamental-value-oriented fixed-income asset manager, Western Asset seeks to invest in a diversified set of opportunities that will deliver superior risk-adjusted returns for its clients over the long term. When analysing these opportunities, Western Asset’s investment professionals consider many financially material issues that may impact future cash flows, including those that may be referred to as ESG factors. As a fiduciary to its clients, Western Asset believes that analysing financially material ESG factors is an essential component of the investment process, as these may affect the risk and return profile of securities.

We understand that ESG considerations can be contextual in nature and can vary across fixed-income sectors and asset classes based on materiality. Consequently, we have developed ESG frameworks across sovereigns, corporates, securitised credit and municipal fixed-income sectors. These frameworks identify material environmental, social and governance risks and opportunities that may arise and impact financial valuations. Research analysts utilise these frameworks to assess the ESG characteristics of issuers which is incorporated into our opinion of the overall risk and opportunity profile for the issuer. We further discuss our ESG philosophy in Principle 7.

Our Strategies

Western Asset offers a full set of investment solutions that can be tailored to meet the needs of our clients. These include a range of UCITS funds classified as Article 8 under EU SFDR (Sustainable Finance Disclosure Regulation), specifically the FTGF Western Asset Short Duration Blue Chip Bond Fund, FTGF Western Asset Global Core Plus Bond Fund, FTGF Western Asset Global Multi Strategy Fund, FTGF Western Asset US Core Bond Fund, FTGF Western Asset US Core Plus Bond Fund, and FTGF Western Asset US High Yield Fund and the FTGF Western Asset Global High Yield Fund.

Additionally, the Firm also managed a range of customised mandates with sustainable guidelines or overarching objectives over the reporting period, across various investment strategies such as Global Aggregate, Global Credit, US Investment Grade Credit, Australian Credit and Asian Credit. Many of our clients have a wide range of sustainable objectives such as those on decarbonisation, alignment to UN Sustainable Development Goals (SDGs), minimum ESG rating thresholds and Sustainable and Responsible Investing (SRI) Exclusions.

Identifying Investment Solutions to Align with Client Objectives and Risk Tolerances		
<ul style="list-style-type: none"> Protect from rising rates Protect from inflation Preserve capital 	<ul style="list-style-type: none"> Diversify globally Hedge liabilities Enhance income 	<ul style="list-style-type: none"> Generate tax-free income Generate total return Achieve ESG objectives
Selected Investment Strategies		
Broad Market <ul style="list-style-type: none"> Global Aggregate Regional Core/Core Plus Regional Intermediate Global Sovereign Long Duration/LDI <ul style="list-style-type: none"> Long Duration Long Credit Liability-Driven Investing Inflation-Linked <ul style="list-style-type: none"> US TIPS Global Inflation-Linked Regional Inflation-Linked 	Credit <ul style="list-style-type: none"> Global Credit Investment Grade Credit Global High Yield US Bank Loans US High Yield Short Duration High Income Mortgage and Consumer Credit <ul style="list-style-type: none"> US Agency MBS US Agency MBS Plus Structured Product Select Credit Opportunities in Real Estate (SCORE) US Municipals <ul style="list-style-type: none"> US Taxable Municipal US Tax-Exempt Municipal 	Unconstrained/Alternatives <ul style="list-style-type: none"> Total Return Unconstrained Multi-Asset Credit Global Multi-Sector Tail Risk Protection Emerging Markets <ul style="list-style-type: none"> EM Diversified EM Corporate Liquidity/Short Duration <ul style="list-style-type: none"> Liquidity Enhanced Liquidity Short Duration Constrained Short Duration

For Illustrative Purposes only. Products, services and information may not be available in all jurisdictions and are offered by Western Asset affiliates and/or their distributors as local laws and regulation permit. Please consult your own financial professional or Western Asset contact for further information on availability of products and services in your jurisdiction.

We continue to partner with clients on opportunities to further expand our ESG offerings via our flagship UCITS funds, as well as through other customised investment solutions.

Our Culture

Our mission is to remain a leader in diversified fixed-income investment management with integrated global operations, exercising uncompromising standards of excellence and ethics in all aspects of our business. Integral to this mission are core values of Trust, Honesty, Integrity, Teamwork, Diversity, Mutual Respect and Personal Responsibility. Continuously shared and applied throughout the Firm, our values enrich and enhance our efforts to excel, for our clients, our people and our organisation.

Our Clients	<ul style="list-style-type: none"> ▪ We put our clients first in everything we do ▪ We listen, understand and help them to succeed ▪ We think and act on a global basis ▪ By meeting or exceeding our clients' expectations, our success will follow
Our People	<ul style="list-style-type: none"> ▪ Our people are our greatest asset ▪ We treat each other with dignity and respect ▪ We foster our diversity and individual growth ▪ We exercise uncompromising standards of excellence ▪ We understand that we are only as good as our people's knowledge, enthusiasm and commitment
Our Organisation	<ul style="list-style-type: none"> ▪ We manage our business with an entrepreneurial spirit ▪ We emphasise teamwork to produce the best results ▪ We stimulate creativity and embrace change ▪ Our values and success make Western Asset a great place to work

Diversity, Equity and Inclusion (DEI)

Western Asset believes that a diverse workforce helps us provide superior client service. In terms of the Firm's critical competitive advantages, DEI ensures that we are able to recruit and retain the best talent and create a team of world-class investment and client support professionals who provide the highest level of investment services to our clients.



Diversity

Diversity represents the range of human differences, including but not limited to race/ethnicity, gender identity, religion, sexual orientation and unique experiences that each individual brings to the Firm.

Fostering different perspectives produces variations of thinking, communication styles, skills and behaviours which ultimately lead to innovative ideas.

Western Asset is committed to creating and maintaining a diverse workforce throughout our entire Firm.



Equity

Ensuring equity is a business practice that means everyone has access to the same opportunities.

Equity arises in a process that begins with acknowledging unequal starting places and the existence of systemic barriers.

Western Asset remains committed to identifying and addressing these imbalances so that all of our employees can thrive and participate fully in the success of the Firm.



Inclusion

While diversity is essential, it is not sufficient in and of itself. A company can be both diverse and non-inclusive at the same time. Thus, a sustained practice of creating inclusive environments is necessary for success.

Inclusion means supporting a work environment where all employees are respected and valued, and can participate fully as their authentic selves in the success of our Firm.

Western Asset is committed to active and ongoing inclusion engagement that fosters the promotion of unique business ideas and favourable investment outcomes.

DEI Global Framework

In 2023, the Firm established key DEI partnerships with the following organisations: Forté, National Black MBA Association (NBMBA), and Association of Latino Professionals for America (ALPFA). The Firm continues to engage with the CFA Institute and Securities Industry and Financial Markets Association (SIFMA) Diversity Council events and activities. One of the key priorities of the DEI Committee has been the creation of a multi-year DEI strategic plan. We have plans to onboard new Committee members in 2024, review the progress of the DEI strategic plan and issue a recommendation to formalise our commitment to the CFA Institute's Diversity, Equity and Inclusion code. Other accomplishments and DEI progress include:

Recruiting & Hiring

- Ensure diverse candidate and interview slates are selected for all open positions
- Continue training of personnel involved in the recruitment, screening, selection, promotion, disciplinary and other related processes to ensure that our DEI commitments are implemented
- Rolled out an Interview Guide for review by the interview team for all open positions

Training & Development

- Access to over 9,000 on-demand LinkedIn Learning courses in business, technology and creative skills, and 140 DEI courses
- Goal setting includes a DEI contribution category for employee goals
- Mentorship Program: Western Asset offers employees a formalised mentorship program. The program originally piloted for one year within an internal women's employee resource group (UNITE). The mentorship program is a means to bridge generations, cultivate and retain our deep bench of talent, and establish continuity of company culture and history. Further program enhancements are slated, namely:
 - Increasing visibility, sponsorship and accountability—especially from senior leadership
 - Setting program metrics to review return on investment (ROI) and impact
 - Improving program structure and training
 - Gathering participant feedback and conducting satisfaction surveys
- McKinsey Connected Leaders Program: Sponsorship for 20 or more employees to participate in cohorts based on experience level and ethnicity through a Franklin Templeton (Western Asset parent company) program focused on Leadership Essentials, Management Accelerator, Executive Leadership and Asians, Blacks, and Hispanic/Latinos.

Employee Resource Groups

Western Asset encourages, supports and promotes the creation and growth of employee resource groups (ERGs) globally as a way to accelerate its DEI impact. These groups offer engagement opportunities for employees around a variety of shared interests and perspectives. Each ERG is supported by an executive sponsor from the senior leadership team. The sponsor not only lends credence to the ERG but regularly attends meetings, participates in dialogue, advocates for the ERG, and helps to remove barriers and roadblocks.

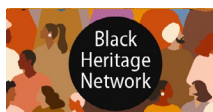
Western Asset's ERGs provide support to staff by fostering an inclusive and safe working environment and providing opportunities for employees to develop both personally and professionally. Through ERGs, the Firm encourages employees to engage in open, authentic, global conversations around DEI; learn productively about diversity at the Firm; demonstrate the spirit of ally-ship towards their colleagues and develop a collaborative sense of community as Western Asset continues on our DEI journey.

Dedication to ERGs has resulted in an environment that encourages staff to further support the Firm's values by:

- Strengthening our culture to help underrepresented groups, women and LGBTQ+ individuals succeed
- Empowering underrepresented groups, women and LGBTQ+ individuals to develop their leadership skills
- Actively encouraging underrepresented groups, women and LGBTQ+ individuals to innovate
- Celebrating those who have had successes in these areas
- Building an inclusive community that is respectful of all backgrounds, experience and knowledge, and
- Actively reaching out to the communities we serve to strengthen these initiatives.

The ERGs include:

- **APEX (Asian Pacific Islanders for Engagement and Excellence).** Sponsored by the Head of IT and Head of Consultant Relations, APEX's mission is to celebrate and support Asian-Pacific Islander culture within Western Asset by embracing differences and promoting professional and personal development.
- **BHN (Black Heritage Network).** Sponsored by the Head of the New York Office, BHN's mission is to facilitate professional development of Black employees by providing an educational forum, creating connections and promoting an inclusive environment at the Firm.
- **LEAD (Latinos for Engagement, Advancement and Development).** Sponsored by the Head of Global Client Service & Marketing, LEAD's mission is to cultivate a community within Western Asset that promotes and integrates Latin/Hispanic cultures and traditions, provides support for professional development and contributes to the success of the Firm's mission.
- **Pride.** Sponsored by the Firm's General Counsel, Pride's mission is to provide a forum for education and awareness, supporting the professional growth of LGBTQ+ individuals by fostering a safe environment within Western Asset for staff to be authentic in the workplace.
- **UNITE (Unify, Network, Inspire, Teach & Empower).** Sponsored by the Chief Investment Officer and Director of Portfolio Operations, UNITE's mission is to empower women through education, leadership, technology and mentorship. UNITE aids in forging alliances with a broad coalition of allies and leaders and strives to build an inclusive community that is respectful of all backgrounds, experiences and cultures.



Performance Evaluations and Training

Western Asset scores employees on their commitment to our core values and business goals. This includes:

- **Authenticity:** Fostering a work environment that encourages people to act with integrity and treat each other and their ideas with respect, creating and protecting a high trust environment by setting an example; advocating for others in the face of challenges, removing barriers to trust, and rewarding others for demonstrating behaviours that cultivate trust.
- **Consistent Adherence to Core Values:** Consistently adhering to and influencing others to adhere to the Firm's core values of Mutual Respect, Personal Responsibility, Diversity, Trust, Honesty, Integrity and Teamwork.
- **Building Organisational Talent:** Supporting others to reach their full potential and satisfy work requirements.
- **Client Focus:** Ensuring that the client perspective is the driving force behind strategic priorities, business needs and processes.

These standards, among other performance criteria, reinforce our client-focused and inclusive culture. Employees also create annual goals to establish additional growth markers. Information on the Firm's remuneration policy is found under Principle 2.

Western Asset also provides a variety of training options for employees, including:

- DEI training and workshops on topics such as psychological safety and unconscious bias
- Orientation classes on general topics such as Firm culture, methodologies and position responsibilities; as well as specialised sessions on topics such as anti-harassment and the Firm's Code of Ethics

Western Asset University (WAU), a global forum for e-learning, is leveraged to provide a wide range of training on topics such as diversity, discrimination and harassment, appropriate workplace behaviour, performance management, communication and collaboration. There are currently multiple courses on diversity and inclusion.

Environmental Initiatives

Western Asset's global offices are united in the pursuit of leaving a smaller environmental footprint on the planet. Each office works with building management, local vendors and suppliers to reduce the use of water and other resources, recycle, convert to renewable sources of energy, implement more sustainable processes, and enhance employee well-being. Some recent highlights include:

London

- 100% renewable energy used in the office building
- Building fully Building Research Establishment Environmental Assessment Methodology (BREEAM) certified
- Confidential paper waste shredded onsite then used by manufacturers to produce notebooks
- An office-wide paper-light policy encouraging double-sided printing and the elimination of paper records, where possible
- Green philosophy and accreditations favoured in the selection process for new suppliers/vendors
- Employee participation encouraged in energy efficiency programs such as WWF Earth Hour
- Ergonomic options for employees such as stand-up desks to reduce the health impacts of sitting for long periods

Melbourne

- 5.27 Star National Australian Built Environmental Rating System (NABERS) weighted average rating for energy
- 4.77 Star NABERS weighted average rating for water, with a 15% reduction in water consumption, 36% waste diverted from landfills and 34% reduction in emissions
- Energy usage reduced through the installation of LED lighting
- Unwanted IT equipment, toner and cartridges recycled as e-waste
- Ergonomic options for employees such as stand-up desks to reduce health impacts of sitting for long periods

Singapore

- 100% renewable energy used in the office building
- 27% year-over-year reduction in electricity consumption (as of March 2024)
- Energy usage reduced through the installation of LED lighting
- Unwanted IT equipment, toner and cartridges recycled as e-waste
- Ergonomic options for employees such as stand-up desks to reduce health impacts of sitting for long periods

Tokyo



- 100% renewable energy used in the office building
- Membership in the building's Environmental Committee
- 11-years of participation in "Eco Turn Delivery System," whereby paper is delivered in plastic boxes and collected for reuse
- Participation in PET Bottle Caps Project to fundraise in support of the organisation Japan Committee, Vaccines for the World's Children (JCV), which converts caps to recycled materials that are sold to fund paediatric vaccines in developing countries

São Paulo

- Sustainable office building initiatives with certificates in PROCEL, LEED Gold, LEED Zero Carbon, Well Health-Safety, and Triple A certificates

US Offices: New York and Pasadena

- Low-energy-usage LED office lights that are on sensors and turn off automatically during non-business hours
- Unwanted IT equipment recycled as e-waste
- Energy-efficient laptop computers used by a majority of staff
- Recycling stations throughout the office for various materials
- Cups made from plant-based materials and filtered water fountains to minimise use of plastic
- Ergonomic options for employees such as stand-up desks to reduce health impacts of sitting for long periods

Western Asset Environmental Efforts by Office Location										Building Rating
										
Pasadena	●	●	●	●	●	●	●	●	●	ENERGY STAR US EPA
New York	●	●	●	●	●	●	●	●	●	WELL Health-Safety UL Tier II Verified
London	●	●	●	●	●	●	●	●	●	RICS SKA Gold, BREEAM
São Paulo	●	●	●	●	●	●	●	●		LEED Gold, Procel
Melbourne	●	●	●	●	●	●	●	●	●	5.1 Star NABERS
Singapore	●	●	●	●	●	●	●	●	●	
Tokyo	●	●	●	●	●	●	●	●	●	DBJ Green Building Certification (received in October 2022)



Recycles



Uses Recycled Products



Utilises Local Suppliers



Paperless Initiatives



Energy-efficient Electronics



Uses Renewable Energy



Limits Plastic Use



Reduces Water



Carpool/Public Transit

Source: Western Asset. As of 30 Jun 24

Our Stewardship Journey

This integration of ESG considerations into our investments is fundamental to our stewardship efforts. Western Asset signed the PRI (Principles of Responsible Investment) in 2016, and regularly evaluates collaborative industry initiatives. For instance, Western Asset has been a founding member of the PRI SDG Advisory Committee, Sovereign Debt Advisory Committee and SFDR Working Group, Sub-Sovereign Debt Advisory Committee, and Plastic Investor Working Group. As a signatory to the UK Stewardship Code since 2022, we work alongside other institutional investors around the globe to advance sustainable investing. Furthermore, Western Asset engages directly with issuers to help advance their ESG practices and their green, social and sustainability bond issuance.

Western Asset's Stewardship Journey

- 1971**
Western Asset Management Company, LLC was founded in October 1971 by United California Bank (which later became First Interstate), and became an SEC-registered investment adviser in December of that year.
- 1986**
Western Asset begins managing mandates against Socially Responsible Investment (SRI) guidelines.
- 2012**
Western Asset adopts an ESG Investment Policy with a mission to advance integration and enable clients to meet their sustainability objectives.
- 2015**
ESG Integration added to the Firm's Strategic Business Priorities.
- 2016**
Western Asset becomes a signatory of the UN-supported PRI.²
- 2019**
Western Asset adopts a formal ESG Engagement Policy and Cluster Munitions Policy to advance its stewardship efforts, and becomes a supporter of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) and the Transition Pathway Initiative (TPI).
- 2020**
Western Asset launches its first ESG-focused fund.
- 2021**
Western Asset adopts the SFDR Sustainability Risk Policy to support its EU-domiciled clients, launches its first Article 8 designated fund under SFDR and hires a dedicated ESG Product Specialist. The Firm also launches its Employee Resource Group programme to support DEI amongst staff.
- 2022**
Western Asset launches additional sustainable investment strategies and hires a Sustainability Risk Manager. The Firm also becomes a signatory to the UK Stewardship Code.
- 2023**
Western Asset continues to strengthen its governance infrastructure by formalising the ESG Strategic Steering Committee charter and other policies and procedures to support its sustainable investment programme.
- 2024**
Western Asset updates its ESG Statement and publishes its first TCFD Report. Western Asset continues to advise and develop solutions for its clients with sustainable investing objectives, align with regulations for sustainable investments, analyse emerging datasets and augment its ESG infrastructure.

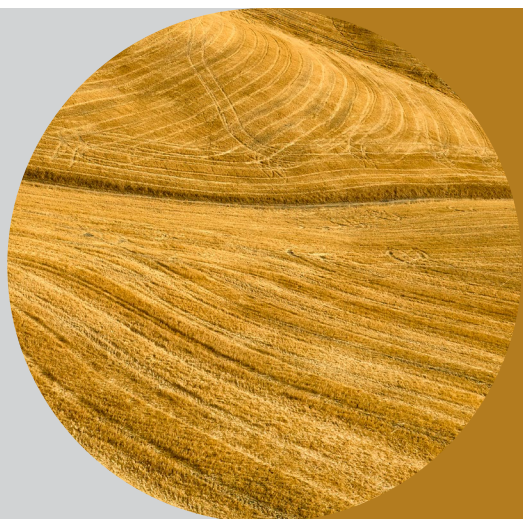


"We believe that incorporating financially material, sustainability-related risks into our investment process is a key tool for identifying fundamental value opportunities. For clients who have a deeper focus on sustainability in addition to financial returns, we tailor investment solutions that help them to address both sets of objectives."

– Bonnie Wongtrakool, Global Head of ESG Investments/Portfolio Manager

² The goals or initiatives of organisations that Western Asset is affiliated with or in some way supports do not necessarily reflect Western Asset's investment views or philosophy. However, these organisations may prove useful in helping Western Asset evaluate material ESG factors. Western Asset's investment philosophy remains long-term fundamental value investing in line with client investment guidelines and objectives.

"Signatories' governance, resources and incentives support stewardship."



“Signatories’ governance, resources and incentives support stewardship.”

Sustainable investing considerations are integrated throughout the Firm, including our governance and investment approach given that we are a long-term, fundamental fixed-income investor, and we believe that these considerations as well as engagement with issuers are key to delivering value for our clients.

Our Governance

Western Asset’s sustainable investing efforts are led by the Director of Portfolio Operations & Head of ESG, Global Head of ESG Investments, ESG Product Specialist and Sustainability Risk Managers, and overseen by its Environmental, Social and Governance Strategic Steering Committee (ESGSSC). The ESGSSC is central to the Firm’s sustainable investing governance and is responsible for adopting, maintaining and overseeing the implementation of all policies, procedures, and controls relating to ESG. The ESGSSC also reports to and engages with the Firm’s Executive Committee on these matters, as necessary. The ESGSSC includes Western Asset’s Director of Portfolio Operations, Global Head of ESG Investments, Global ESG Product Specialist, and senior members of Investment Management, Client Service, Risk and Legal and Compliance, as highlighted in the table.

ESG Strategic Steering Committee

Connie Fischer Chairperson			
ESG Committee Members			
Bonnie Wongtrakool, CFA Global Head of ESG Investments		Brishni Mukhopadhyay, CFA Global ESG Product Specialist	
Roberto Apelfeld, PhD Risk Management	Marzo Bernardi Client Service & Marketing	Ryan K. Brist, CFA Investment Management	Michael Borowske Investment Management - Research
Ahmet E. Kocagil, PhD Risk Management	Jan A. Pieterse Product Management	Annabel Rudebeck Investment Management	Paul Svoboda Client Service, Australia/New Zealand
Michael B. Zelouf, CFA Client Service, UK/Europe/ME		Courtney A. Hoffmann Legal & Compliance	Jelena Petrovic Regulatory Affairs & Compliance – UK

ESG Cross Mandate Task Force. The ESG Cross Mandate Task Force, which comprises senior investment team members representing a range of fixed-income mandates, reviews high-risk ESG issuers and maintains watch and red lists of issuers that require increased monitoring and engagement. The Task Force also assesses how treatment from an ESG perspective may impact investment strategies in different ways and ensures consistency of approach.

Sustainability Risk Team. This team consists of the senior members of the Risk Management Team globally. The team meets at least monthly to discuss a range of issues on sustainability risk such as how to measure the physical and transition effects of climate change on credit portfolios, implications for portfolio allocation,

and risk tolerances based on decarbonisation targets. Members of the Sustainability Risk Team report to our Chief Risk Officer.

Our Team Resources



Bonnie M. Wongtrakool, CFA, has served as the Firm's Global Head of ESG Investments since 2018. In this role, she oversees, implements and manages the Firm's cross-sector ESG strategies, capabilities, analysis, research and engagement across the Firm.



Brishni Mukhopadhyay, CFA, has served as the Firm's ESG Product Specialist since 2021, and operates as a steward for our clients' ESG integration needs. Mr. Mukhopadhyay is strategically positioned in the Firm's London office based on increasing client demand and regulatory requirements. He is also engaged by the University of Cambridge Institute for Sustainability Leadership to provide ongoing training for mid- and senior-level executives from corporate and financial institutions on sustainable finance and business strategy topics, and he Chairs the Chartered Financial Analyst Institute's ESG Advisory Panel.



Connie Fischer joined the Firm in 2023 as the Firm's Director of Portfolio Operations, and she oversees our ESG programme.

While many Western Asset employees are involved in the Firm's ESG efforts, the following are key members of our ESG team, along with others with sustainable-investment-related responsibilities:



Tania Labastida Garcia has served as Sustainability Risk Manager for the Firm since 2022. Ms. Labastida Garcia previously worked as a risk manager at Western Asset focused on assessing the implications of decarbonisation of portfolios from a risk management perspective. Ms. Labastida Garcia works closely with the Risk Management Team.



Roberto Apelfeld, PhD, has served as our Head of Client Solutions since 2009, and serves on our Sustainability Risk Team.



Marjan Zahedi, PhD, has served as a Portfolio Risk Manager for the Firm since 2022 and EMEA Credit Sustainability Risk Manager since 2018.



Paulo Caricati, CFA, has served as our Head of Non-US Risk Management since 2024, and previously served as Head of EMEA & LATAM Risk Management and Sustainability Risk Manager, having joined the Firm in 2005. Mr. Caricati is also a member of our Sustainability Risk Team.

The Sustainability Risk Team comprises:

Midori Murata has served as our Data Analysis & Insights Manager since 2006. For the last five years, Ms. Murata has worked on the development of IT tools that drive and support our ESG framework.

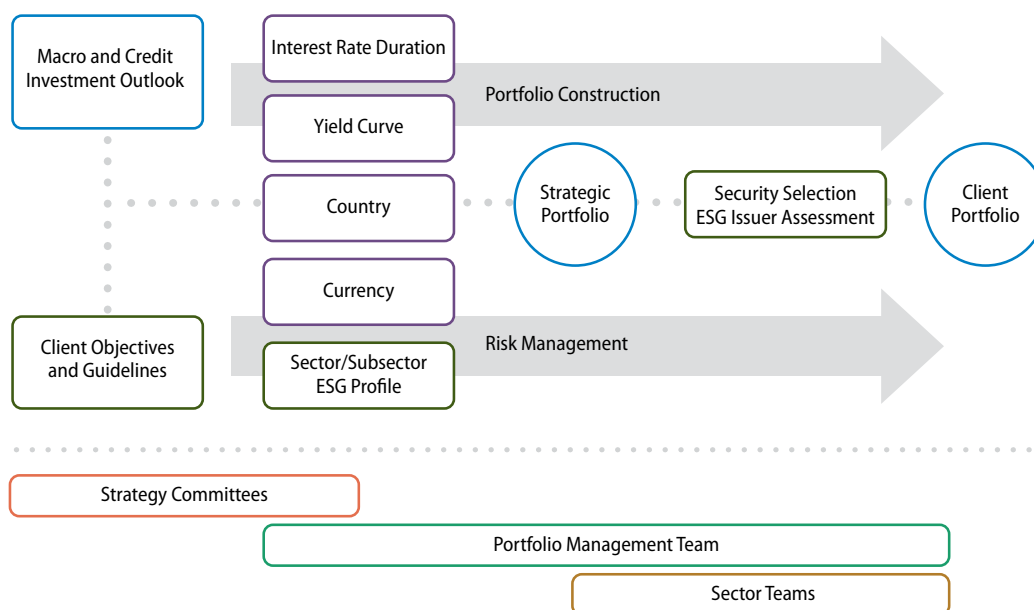
Jelena Petrovic has served as the Head of London Regulatory Affairs and Compliance since 2012 and has led the ESG regulatory integration efforts since 2020.

The Firm's sustainable investing efforts are further supported by our IT and Compliance staff who devote a significant portion of their efforts to ESG matters.

In addition, investment professionals, with both sector and product responsibilities, work together as a single unit across the Firm's global offices. The primary responsibility of portfolio managers is to synthesise the fundamental and relative value analysis by research analysts with the technical input of the traders and risk managers to construct a portfolio that reflects the Investment Management Team's views within the context of each mandate's guidelines and risk tolerance.

Western Asset's research analysts are responsible for providing fundamental analysis at the industry and issuer levels, and for opining on industry and issuer risk/reward characteristics. They seek to assess the impact of ESG factors on individual issuers and to understand the underlying risks and opportunities, which may affect the creditworthiness of the issuer. These aspects are considered when formulating credit and risk profiles for the investment. Western Asset expects that the research analysts document new corporate bond purchases and those E, S and G factors deemed relevant for the issuer. They opine on the ESG factors' influence on the sustainability of the issuer's business model and on the risk premium appropriate to its ESG profile.

Western Asset believes that it is effective for research analysts to take a holistic approach and implement material ESG considerations as well as for portfolio managers to incorporate material ESG factors when constructing portfolios, rather than having a separate ESG team that focuses solely on sustainable investing. This structure is consistent with our philosophy that ESG considerations can affect valuations and should be integrated by everyone involved in investing client capital, as opposed to having a siloed team perform this function.



Western Asset's approach is to integrate ESG considerations, amongst other factors, into the research, engagement, portfolio construction and risk management portions of our investment process as illustrated below:

The Global Head of ESG Investments and ESG Product Specialist work with the Firm's research analysts across all of our offices to advance our credit and sovereign ESG analysis and ensure that ESG analysis is applied consistently.

Our Technology and Data Resources

Central to the sustainable investing programme is technology and data integration, which Western Asset supports through a robust infrastructure.

Customised Research and Engagement Platforms

Western Asset employs VerityRMS as its primary research and engagement platform for corporates, sovereigns, and structured products. Research analysts for these asset classes record their credit write-ups, ESG factor analyses and engagements in VerityRMS. In addition, Western Asset's municipal research analysts utilise Credit Scope, a specialised software solution that provides normalised financial data and credit analytics for municipal issuers. This platform is customised to allow research analysts to record assessments, monitor changes in credit risk and maintain custom ESG risk factors. The Firm continues to enhance its infrastructure to better report, share and monitor research and engagements. VerityRMS is calibrated to standardise research content and to provide various types of information via automated reports, including daily notification of new research, as well as to monitor research analyst productivity. Research analysts engage with issuers and directly log these engagements within the system, including details such as the date and theme of the engagement, notes, potential next steps, outcomes and relevant impact on ESG characteristics and investment decisions. The system also showcases the compliance dashboard to support oversight of sustainable investing initiatives.

Data integration is central to Western Asset's ability to provide more in-depth assessment of issuers, to monitor client account compliance as well as regulatory obligations, and to provide a wider range of solutions and tools for our clients. This demonstrates our commitment to our clients and provides first-class solutions from investments to monitoring and reporting capabilities.

With the availability of new ESG data, Western Asset has invested in evaluation and integration of newer data into the Firm's reporting systems, such as carbon emissions data for mortgage-backed securities. We continue to enhance our existing portfolio management tools and reports, such as our issuer tear sheet and report on Principal Adverse Impact (PAI) indicators. We have also added further decarbonisation metrics to our reporting suite in response to queries from clients.

Western Asset Information System for Estimating Risk (WISER)

The Firm has developed proprietary methodologies from a bond manager's perspective to stress-test portfolios on climate risk. These methodologies incorporate an assessment of physical and transition risks stemming from climate change for corporate bond portfolios. We took this approach as we have found third-party resources unsuitable given their primary focus on listed equities. The Firm can also draw upon its carbon optimiser tool, which assists in the allocation to issuers with low Weighted Average Carbon Intensity (WACI) or emissions while minimising the drift in risk targets such as portfolio tracking error, duration and spread duration, to the extent possible. Furthermore, the Firm has also developed internal tools to assess sovereign decarbonisation pathways based on commitments made by sovereigns. Queries from clients globally have shown an increased need for such tools to address clients' sustainable investing needs.

Our Training and Education Resources

The Firm believes that regular formal and informal learning opportunities are essential to sustainable investing integration and delivering value for our clients. In addition to individual client consultations, Western Asset also presents at global industry conferences and events to help educate investors on ESG integration and topical ESG-related issues.

As part of our ongoing efforts to advance internal ESG capabilities, our dedicated ESG professionals conduct training sessions, including for our Investment Management, Risk Management, Client Service & Marketing, and Legal & Compliance staff. Western Asset also supports attendance at ESG conferences and external ESG roundtables as well as internal presentations and communications of ESG issues. A few examples of Western Asset's continued internal ESG training include:

- Weekly presentations by the Firm's research analysts that may include the incorporation of ESG factors into their coverage universe
- Training for the Investment Management Team to ensure alignment with the evolving SFDR expectations and regulatory considerations around PAIs, as well as "do no significant harm" assessments for Article 8 funds
- Regular IT-led meetings to train Compliance and Investment Management Team staff on how to utilise new compliance and trading systems capabilities, including data availability for rule programming as well as reporting tool developments
- Ad-hoc training sessions conducted by the ESG Team for the Investment Management and Client Service & Marketing Teams across the Firm's offices to familiarise and update our investment, Client Service and Product Specialist professionals on various aspects of sustainability ESG research, data, modelling, risk tools and reporting the Firm has developed for our clients, and
- Firm sponsorship for employees to earn the CFA Institute's Certificate in ESG Investing.

Our Incentives

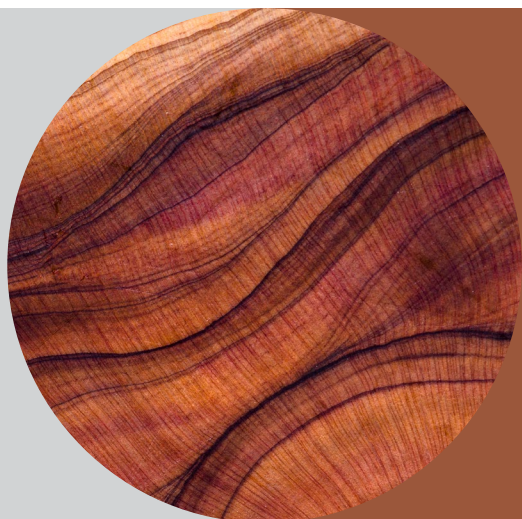
Western Asset's compensation philosophy is grounded in the Firm's mission and core values of Trust, Honesty, Integrity, Teamwork, Diversity, Mutual Respect and Personal Responsibility. Western Asset's compensation structure, covering all employees, is also designed to ensure that the interests of the Firm's personnel are aligned with client interests.

In line with this approach, the Firm's investment professional incentive programme is structured to reward each member of the Investment Management Team (consisting of portfolio managers, research analysts and traders) for their contributions to the Firm, as well as for relative performance of their specific strategies and client portfolios. Compensation is determined by job function and performance is measured, primarily qualitatively, by the review process. Adherence to the Firm's ESG framework is part of the compensation analysis, among other requirements, for portfolio managers and research analysts. Research analyst productivity is tracked through VerityRMS and Credit Scope.

Outcome

Western Asset's governance structure, supported by ongoing technology and data enhancements, provides a strong foundation for ongoing stewardship of our clients' assets. The Firm's governance structure allows for knowledge sharing, robust discussion, monitoring of sustainable investing outcomes, innovation and problem solving to support the Firm's client investment and stewardship agenda. This is achieved through ongoing cooperation involving all relevant investment professionals and senior leadership.

“Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.”



“Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.”

As a fiduciary, Western Asset provides services in the best interests of our clients. Western Asset has adopted compliance policies and procedures to address a wide range of potential conflicts of interest that could impact client portfolios. These policies are set out in compliance manuals and personal trading policies that reflect Western Asset’s global business approach and are also tailored for specific offices and their local regulatory and market environments. Western Asset’s Statement on Conflicts of Interest, which brings together commentary on different potential conflicts, may be found on our [website](#). Additionally, conflict of interest disclosures are provided in our Form [ADV Part 2](#).

From a stewardship perspective, these conflicts of interest policies principally focus on ensuring that:

- All similarly managed accounts are provided the same investment opportunities over time, subject to any guideline, regulatory or cash flow differentials
- Where there are opportunities to engage in proxy voting, which is limited for fixed-income managers, that these are carried out in the client portfolio’s best interest, and
- Where investment opportunities arise where Western Asset has an interest, financial or otherwise, the best interest of our clients remains paramount.

Identification and Mitigation of Conflicts of Interest

Western Asset takes steps to identify and address actual and potential conflicts that could arise through our role as an investment manager. In addition, these potential conflicts are monitored, managed and controlled on an ongoing basis. Not all potential conflicts are actual or significant conflicts. The Firm seeks to focus on addressing those conflicts most likely to have an impact on decisions made for, or advice given to, clients. The process of identifying and addressing conflicts is ongoing to ensure the Firm’s approach remains current in light of business, market or regulatory changes.

At least once annually, the Legal and Compliance Department reviews the schedule of all identified actual or potential conflicts of interests. The schedule also consists of preventative controls, detection methods and controls, as well as dedicated policies for each conflict of interest. Generally, Western Asset’s business does not appreciably change year-over-year, and as a result, the conflict of interest schedule has remained consistent over the years. Separately, employees may escalate conflicts of interest that they become aware of to their line manager, as well as to the Legal and Compliance Department. Finally, all staff are annually required to attest to any conflicts of interest that relate to their role and outside activities.

Examples of common potential conflict of interest areas include:

- Management of multiple client portfolios
- Breach and error management
- Stewardship, engagement and proxy voting
- Gifts and entertainment
- Personal trading, including investments with business contacts
- Outside business activities, and
- Political contributions.

Western Asset is also mindful of other circumstances that may give rise to a conflict as a result of the structure and business activities of other members of the group. These include:

- Product development
- Investment research and advice
- Proprietary trading, and
- Corporate finance activities.

Western Asset takes measures to reinforce and strengthen our client-first culture through new joiner and annual training, compensation philosophy, segregation of duties and reporting lines, escalation procedures, and a compliance programme tailored for the Firm's business and its risks. The Firm's compliance training programme is developed and administered in-house by the Legal and Compliance Team, which allows it to be customised and tailored as regulations and risks evolve. Additional training is available to all staff through a library with a broad range of courses, including those relating to conflicts of interest.

The Firm also maintains ongoing compliance monitoring programmes that are specifically designed to identify conflicts and risks, then test to validate that the Firm's control structure has integrity. The monitoring programme allows the Firm to stay close to changes in the business and gives comfort that the Firm's practices match its expectations. The commitment of resources to support the programme is another tangible sign of the Firm's priorities.

Resolution of Conflicts Through Committees

As highlighted in our response to Principle 2, Western Asset has a range of committees to help analyse, debate and resolve key issues related to stewardship and its implementation. Members of the ESG Task Force and ESGSSC, amongst their other responsibilities, look to understand the implications of potential conflicts arising from investments and actions to be taken. While different investment teams may take different views based on client expectations and strategies managed, the ability to debate conflicts and consequent implications is necessary to arrive at a nuanced decision that reflects the best interest of our clients.

Example of Conflicts of Interest: Investment Opportunities

Western Asset manages a wide range of strategies to meet different client needs and objectives. Western Asset owes a fiduciary duty to all of our clients and their respective accounts. Accordingly, the Firm strives to ensure that accounts are neither favoured nor neglected. The Firm also often trades for multiple accounts in the same strategy at the same time. It is important to ensure that each mandate with similar guidelines and objectives is treated with equal attention and consideration. An additional consideration is that there may be limited quantities available. Designing technology tools and maintaining consistent practices on a day-by-day and trade-by-trade basis helps ensure fair treatment of each client. The Firm takes steps to identify where such incentives might exist and then adopts measures of mitigation and/or disclosure where appropriate. For instance, the Firm's Compensation Philosophy and Process ensures that the Investment Management Team is not remunerated on the merits of a single portfolio but on a team-based, risk-adjusted and long-term basis. There will also be instances where the Firm constructs investment portfolios differently for clients with similar mandates depending on each client's specific ESG preferences and restrictions. For example, Western Asset firmly believes that in instances where potential conflicts arise relating to investment in issuers that are not explicitly excluded by the mandate's guidelines, the matter should be raised with the clients as part of our fiduciary responsibilities.

Western Asset manages similar mandates on an aggregated basis wherever possible. Given our broad client base, views on sustainability investing differ and require a more tailored approach for certain clients as a result. For example, a subset of our Global Aggregate mandates has a greater focus on ESG themes. As a result, the Investment Management Team responsible for managing these mandates requested an additional investment filter to ensure that those issuers with highest ESG risk, as identified by Western Asset, are highlighted at time of an intended transaction and are thereafter monitored or removed from the investment universe for certain transactions that may conflict with the higher sustainable investing standards. This team utilises watch lists maintained by the Firm's ESG Cross Mandate Task Force, as well as other portfolio manager driven considerations, in the portfolio construction process.

Example of Conflicts of Interest: Affiliations

When Western Asset makes trading decisions for our clients, we are obligated to make those decisions on the merits of our clients' best interests. Two potential conflicts of interest are in broker and issuer selection. Western Asset operates as part of a larger financial services company and does not issue any publicly traded securities. Our parent, Franklin Resources, Inc., is a public company, issues publicly traded securities and has other lines of business. If Western Asset were to recommend that clients invest in securities of our parent company, clients might question if corporate affiliation influenced the Firm's investment decision. Western Asset has identified this potential conflict of interest and opts to abstain from such affiliated transactions.

A key control for avoiding conflicts of interest with counterparties is the Firm's Broker Review Committee in each office where trading is carried out. The Broker Review Committee ensures that counterparties that will be utilised are thoroughly vetted based on several grounds, including credit assessment, affiliation and operational quality of execution. Once the required assessments have been carried out, the Firm's internal broker administration system is updated to allow the broker to be utilised when trading. Additionally, certain brokers, while approved at the Firm level, may be blocked for clients that may have their own restrictions, including affiliations to specific brokers.

Example of Conflicts of Interest: Personal Trading

Western Asset's staff make decisions in managing their own personal affairs. However, they should not be taking inappropriate advantage of information they learn in the scope of their employment. Western Asset has designed personal trading policies to balance potential conflicts of interest with staff's need to manage their own assets. For example, potential investments into commingled fund vehicles managed by the Firm are subject to pre-clearance and minimum holding periods. Potential investments in many instruments the Firm may trade on behalf of clients are subject to pre-clearance.

In order to support the oversight of personal transactions, Western Asset's US and UK offices have been utilising My Compliance Office (MCO) software, which is currently being expanded to other Western Asset offices, thus providing greater automation across the Firm. For the US offices, the system contains employees' personal brokerage accounts and data feeds with trading activities. MCO allows for conflicts of interest assessment against various customised business rules including security holding periods, restricted lists, IPO participation prohibitions, front-running, insider trading and trading frequency limits. Employees can submit pre-clearance requests using the system. The Firm's restricted list is regularly updated and exceptions will be noted if an employee trades an item on the restricted list without pre-clearance approval. Front-running is coded for employees on the Investment Management Team and employee trades will be checked against the Firm's trades to ensure there are no conflicts of interest.

“Signatories identify and respond to market-wide and systemic risks to promote a well- functioning financial system.”



“Signatories identify and respond to market-wide and systemic risks to promote a well- functioning financial system.”

As previously mentioned, Western Asset’s investment philosophy focuses on long-term value investing using multiple diversified strategies. We integrate financially material ESG considerations across our strategies with the goal of seeking to deliver superior long-term investment results to our clients while adhering to high standards of personal and corporate accountability.

Research analysts understand that a failure by issuers to identify and manage material E, S and G risks could impair their ability to meet debt obligations. Therefore, our proprietary investment research framework seeks to identify and assess these financially material risks. We take a sector-specific approach to identify these factors, such as greenhouse gas emissions, water usage, gender and ethnic diversity, and regulatory shifts. Based on their research, analysts provide an ESG score that we believe is reflective of the underlying ESG risk. While Western Asset’s Investment Management Team is provided with information on ESG risks and takes 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.

Alongside the investment process, Western Asset’s Risk Management Team provides an independent assessment of portfolio, as well as firmwide risk, and is critical for optimal portfolio management. Integrating risk management into portfolio construction strengthens its effectiveness.

Recognising that strong communication amongst risk managers and portfolio managers is essential to the risk management process, the Firm places substantial emphasis on collaboration around an integrated risk management platform. At the same time, maintaining the Risk Management Team’s independence from the Investment Management Team is critical.

Climate Change and Risk Management

Climate change is increasingly identified as a systemic risk by some of our clients and regulators, with the potential to disrupt financial markets and the global economy and to impact investment returns. The risks can be physical or transitional. For instance, this could include a transition process to a lower-carbon society with attendant costs, taxes, policy changes, prohibitions, subsidies, gainers and losers, corporate losses and defaults, sovereign fiscal difficulties, credit downgrades and political tensions. It could also include physical effects of higher temperatures, including rising sea levels, floods, droughts, migration, political tensions, increased financial risk on corporate and national capital stock and diminished revenues as a result of climate events.

In response to client queries on ways to evaluate these risks, Western Asset’s Risk Management Department established a dedicated Sustainability Risk Research group. This team focuses on applying quantitative tools, including the Firm’s carbon optimiser and Climate Risk Stress Test models, to analyse potential paths for decarbonisation of portfolios, the potential impact of net-zero carbon emissions commitments, greenhouse gas (GHG) reduction targets and the potential impact of transition and physical risks to the default probability of companies. Of note, this team has developed:

- A climate risk assessment model to measure transition risks from climate change, measure physical risks from climate change for corporations and assess sovereign alignment on decarbonisation, based on various commitments
- A carbon optimiser framework, which allows Western Asset to construct and rebalance portfolios over time, including being overweight in issuers with low carbon intensity while underweighting those with high carbon intensity. The framework also allows the Firm to reward those issuers that have strong and well-developed carbon transition plans or are industry leaders in moving to a greener economy. This serves as a useful tool when modelling portfolios to assess the impact of decarbonisation targets on portfolios, and
- Climate risk stress test, which allows Western Asset to measure the portfolio exposure to various climate change scenarios, as outlined by the Intergovernmental Panel on Climate Change (IPCC). This stress test is run in WISER (Western Asset's proprietary risk management system).

Helping Clients Understand the Implications of Climate Change

Our clients have a broad range of investment and sustainability goals. We have worked with clients during the Reporting Year, as in years past, to assess climate risk in their portfolios and help them understand the implications of climate change. Where clients seek decarbonisation goals to be incorporated in addition to investment objectives, we highlight our concerns around aggressive decarbonisation targets on the investment objectives, as well as the potential impacts from higher concentration risks in specific sectors and issuers.

We believe that clients appreciate our approach to sustainable investing, rigorous approach to assessment and candour in discussing portfolio implications of decarbonisation and that they value our knowledge-sharing sessions. In some instances, this has led to clients adopting a new set of guidelines focused on integration of certain sustainability goals, while in others it has led to further discussions to explore investment options.

Collaboration With Other Industry Participants

As part of our engagement efforts on climate change, Western Asset has also been a supporter of TCFD and TPI since 2019. Western Asset submitted its inaugural TCFD report in 2024 in line with UK Financial Conduct Authority (FCA) guidelines. Western Asset is a member of the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) working group and has been involved in formulating a methodology to develop a framework for assessing sovereign decarbonisation and the consequent implications of these on the financial markets. The ASCOR tool was released in December 2023 and Western Asset has participated in sessions to educate other investors on potential use cases and to gather feedback.

In addition to these collaborative initiatives, Western Asset continues to identify and analyse climate-related risks and opportunities within the fixed-income investment universe.

For examples of how the identification of systemic risks have informed our engagement activities, please refer to Principles 9, 10, 11 and 12.

Promoting a Well-Functioning Financial System

As a leading global fixed-income manager, Western Asset regularly engages with our trading counterparties and bond syndicate teams at investment banks to help promote a well-functioning marketplace.

This includes the development of instruments in the fixed-income markets such as “green bonds,” “social bonds,” “sustainable bonds” and “sustainability-linked bonds.”

In our efforts to effectively advance sustainable investing, Western Asset regularly assesses opportunities to participate in industry groups and initiatives.³ The Firm seeks to participate in initiatives that align with our role in the financial system as a fixed-income investment specialist, and we have been active in the following areas over the reporting period:

- **United Nations Principles of Responsible Investing (UN PRI) Working Sub-Group on SFDR & EU Taxonomy.** We assessed potential implications of SFDR and the Taxonomy regulations for sovereign debt markets to avoid negative or unexpected impacts to these markets. This work has highlighted areas of needed engagement with sovereign issuers and multilaterals to promote greater disclosure on climate and social dimensions of government budgets.
- **Institute of International Finance Principles Consultative Working Group.** We helped revise the Principles for Stable Capital Flows and Fair Debt Restructuring, which serve as a framework for crisis prevention and resolution, particularly in the cases of sovereign debt distress or restructuring, as well as to address recent developments across sovereign debt markets.
- **Institute of International Finance Committee on Sovereign Risk Management (CSRM).** The CSRM was convened in response to the COVID-19 pandemic to help coordinate the private sector’s response to stress in sovereign debt markets. The principal role of the CSRM, to date, has been to shape the private sector response to the G20’s proposal for private sector participation in its Debt Service Suspension Initiative (DSSI).
- **Debt Restructurings.** We periodically serve as a member of restructuring credit committees (see also Principle 12), and actively engage with the issuer, other creditors, legal and financial advisors to ultimately improve terms.
- **CFA Institute.** Mr. Brishni Mukhopadhyay, CFA, our ESG Product Specialist, leads the CFA Institute’s ESG Advisory Panel and is a member of the CFA Institute’s ESG Technical Committee that discusses various policies and best practices relevant for the investment industry and financial markets.

³The goals or initiatives of organisations that Western Asset is affiliated with or in some way supports do not necessarily reflect Western Asset’s investment views or philosophy. However, these organisations may prove useful in helping Western Asset evaluate material ESG factors. Western Asset’s investment philosophy remains long-term fundamental value investing in line with client investment guidelines and objectives.

"Signatories review their policies, assure their processes and assess the effectiveness of their activities."

“Signatories review their policies, assure their processes and assess the effectiveness of their activities.”

Western Asset’s approach to ESG and stewardship is outlined in the Firm’s ESG [policies](#), which encapsulate our approach to engagement, our processes for considering ESG matters in investment decision-making, and our application of exclusion lists as well as SFDR regulatory-related requirements. The ESG policies are maintained by the ESG Team, which is further supported by the Legal and Compliance Department. Western Asset’s ESG programme is assessed through a multi-layered approach including independent PRI and FRC assessments, internal audits, and committee and working group oversight. Additionally, through the suite of reports the Firm has developed, clients are able to measure the effectiveness of our ESG programme on their mandates.

Our ESG Policy Review

The ESGSSC is responsible for adopting, maintaining and overseeing the implementation of all policies, procedures, and controls relating to ESG. The ESGSSC also reports to the Firm’s Executive Committee on these matters, as necessary. Western Asset’s ESG policies and procedures are reviewed regularly in order to ensure continued adherence to client needs and regulatory developments. These policies include the Firm’s ESG Statement, which was published in May 2024 and describes Western Asset’s research, engagement, and integration processes, and its Cluster Munitions Investment Policy, which was formalised in 2019 and requires compliance with the global regulations with respect to investments in companies involved in the manufacturing of cluster munitions as identified by the December 2008 Convention on Cluster Munitions (the Oslo Convention).

UN PRI Assessment

As a PRI signatory, Western Asset is required to publicly report on our sustainable investment activity annually through the UN PRI Reporting Framework. Western Asset’s 2023 Public Transparency Report is publicly available at: <https://ctp.unpri.org/dataportalv2/transparency>

Our Internal Monitoring

Firm committees and working groups, including the ESGSSC, ESG Task Force and Sustainability Risk Team, collaborate regarding best practices in the arena of sustainable investing. Separately, the Firm’s Global Regulatory Developments Working Group monitors for ESG-related regulatory changes, ensuring that any such developments are properly considered. Through this forum, the Firm assesses the impact of various ESG regulatory changes, such as the UK SDR, UK TCFD, EU SFDR, EU Taxonomy Regulation, and the SEC ESG Disclosure Rules. These teams provide valuable oversight of the Firm’s ESG programme and effectiveness, including with respect to data needs, investment decisions, client requirements, operational support and regulatory implications.

Compliance and Internal Audit Oversight

The Firm’s Legal and Compliance Department conducts annual and specific training for all Firm personnel on global regulatory requirements, policies and procedures. The Legal and Compliance Department has three key functions: Regulatory Affairs, Portfolio Compliance and Global Legal. These three functions are performed across Western Asset’s offices globally through a combination of staffing structures and reporting

lines. The Firm strives to maintain consistency in approaches across offices while recognising unique local regulatory obligations and market needs. The day-to-day integration of the Legal and Compliance staff in the Firm's operations results in staff being better informed of the Firm's practices, thus mitigating the risk of failing to identify a risk, an obligation or a disclosure misstatement. This structure also serves to support the Firm's ESG investment process by integrating Legal and Compliance into day-to-day ESG processes as well as projects. The Regulatory Affairs and Portfolio Compliance teams are particularly integral to ensuring that the Firm's ESG policies, procedures and controls are effective.

Regulatory Affairs

The Regulatory Affairs function takes the lead with respect to regulatory requirements, including timely and appropriate identification, assessment and implementation. Carrying out this function involves close coordination with various teams across the Firm to understand Western Asset's existing capabilities and to guide the implementation of system and process enhancements necessary to comply with regulatory obligations and best practices for ESG investing. As such, members of Regulatory Affairs are likewise members of project working groups that implement ESG changes and can ensure regulatory implications are considered. Another key role that members of Regulatory Affairs play is providing oversight of defence controls in relation to ESG investments.

Portfolio Compliance

Our Compliance Team has a three-level approach to controlling the investment environment.

- The first level is the Start-Up and Integration Team (SUIT), which spearheads the negotiation and coding of guidelines. Guideline rules are coded into the Compliance Service, the Firm's proprietary monitoring system. This system is designed to address all client guidelines, including ESG-related parameters.
- The second level is ongoing monitoring that evaluates trades and accounts, on both a pre-and post-trade basis. Compliance Officers support ESG investing by monitoring compliance with client guidelines and regulatory ESG restrictions on a pre- and post-trade basis, by implementing and monitoring ESG-related screens, and by assisting with client reporting or certifications.
- The third level involves working with colleagues, prospects and clients to understand investment objectives and proposed guidelines. This often involves conducting scenario analyses to understand the potential impact of various ESG investment parameters and guideline approaches. This allows clients to make well-informed decisions in order to transition their mandates to sustainable investments, where they desire to do so.

Internal Audit

The internal audit activities coordinated with Western Asset's parent, Franklin Resources, provide additional oversight of our sustainable investing programme. The internal audit team is comprised of both an in-house team and external, co-sourced Deloitte resources.

Case Study: Process Enhancement

Western Asset reviews its policies and procedures at least once annually, and more frequently if there are material regulatory or business changes, as well as best practice developments. As part of our annual review of our ESG policies and procedures, we determined that simplifying the structure of these documents

and statements would be beneficial to both our stakeholders internally at the Firm, as well as to our clients. We have, as a result, combined a number of our policies and procedures into a single ESG Statement, that now more clearly presents our approach to ESG and how we can support our clients on their individual investment journeys.

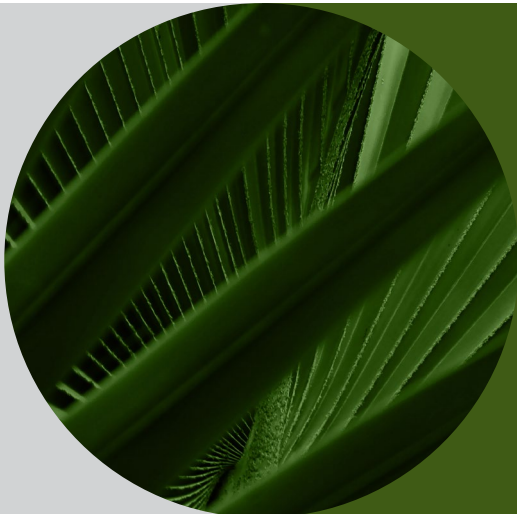
► **Outcome:** As a result of the review, the ESG Statement provides a comprehensive view of our ESG approach and, we hope, more clearly informs our staff and clients, how we view ESG risk, how we engage with issuers and on which key issues, as well as our governance structure that supports our ESG programme. Sustainable investing has been an evolving area, and as a result simplifying how we communicate our approach was key to our continued success.



"We recognise that strong governance is central to robust assessment of regulatory requirements and supporting our clients on their sustainable investing journeys as they rely on our knowledge and expertise. As a result we are dedicated to continually strengthening our framework, processes and procedures through our committees and systems."

– Jelena Petrovic, Regulatory Affairs & Compliance – UK

“Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.”



“Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.”

Understanding Clients’ Expectations Can Lead to Success

Our goal is to have clients see us as an extension of their own businesses, and we collaborate closely with them to build customised solutions that meet their investment and ESG objectives, including ESG solutions where desired. We put clients first in everything we do, and work to help our clients achieve their investment goals.

We provide our extensive investment expertise to help clients identify investment strategies that will best meet their specific needs. To complement that effort, we provide an exemplary level of client service, including assigning each client their own Client Service Executive and supporting team. Client Service Executives function as a voice for their clients and champion their clients’ needs. We believe that positioning our Client Service Executives to take the lead role in a client relationship delivers a greater level of hands-on service and allows Western Asset’s portfolio managers to devote their attention to their top priority: actively managing our clients’ investments.

We work with clients during the onboarding process to customise investment guidelines that suit the specific aims and objectives of each mandate, including ESG targets. Examples of how we help our clients understand the implications of ESG integration include discussions about:

- The reduction of the investment universe stemming from SRI exclusions
- Potential changes in alpha targets or tracking error as a result of incorporating ESG screens or different decarbonisation objectives
- Implications of portfolio decarbonisation, and
- Regulatory implications of various approaches to sustainable investing.

Regular client engagement helps us assess whether what is being implemented from an ESG perspective meets client expectations, and to escalate where there may be potential mismatches between expectations and risk-return targets. We also work with clients to set appropriate investment horizons—which are generally long-term in nature—and, as a result, we explore different options to meet sustainable investing targets that align with client-specific timelines.

We work with each client to develop a communication strategy that is unique to them. While most clients prefer structured quarterly meetings (in person or via video conferences), some may have additional communication needs. Client communication can range from structured meetings (e.g., covering investment performance, portfolio positioning and investment strategy) to ad hoc discussions about topical issues and fixed-income markets.

As a testament to our standards, Western Asset was ranked as the second highest in terms of ESG capabilities and leadership in the 2023 Greenwich U.S. Institutional Investors Study. We are grateful for the trust that our clients have placed in us.

Case Study: System Enhancement

During the Reporting Year, Western Asset made enhancements to our internal systems and reports. Some of these improvements include the introduction of new templates in VerityRMS for monitoring earnings results and ratings changes. Additionally, we initiated discussions on incorporating additional fields in VerityRMS to flag issuers or issues that align with the “Sustainable Investment” flag or do not breach the “Do No Significant Harm” criteria, in alignment with EU SFDR Article 8 requirements.

Within our ESG reporting suite we have incorporated a portfolio drill-down to show Principal Adverse Impact (PAI) considerations aggregated for sectors in EU SFDR Article 8 accounts. The PAI report can provide greater granularity from an aggregate sectoral perspective compared to an aggregate at the portfolio level. Additionally, the tool also allows us to compare PAI characteristics across different time periods.

A further addition to our ESG reporting tool kit was a report that allowed for comparison of WACI and SDG characteristics across different time periods.

► **Outcome:** The aforementioned system and report enhancements are beneficial to client mandates that have specific sustainable guidelines and allow us to better analyse the ESG implications arising from trading and portfolio management activities. Additionally, it also allows us to monitor the evolution of the portfolio and its alignment with its sustainable guidelines.

Sustainable Investment Solutions

While Western Asset broadly considers financially material ESG factors and risks in our investment solutions, the Firm provides both a variety of ESG investment vehicles as well as customised segregated mandate solutions for clients. These focused strategies apply an enhanced focus on sustainability factors above and beyond the ESG integration utilised in other mandates.

Case Study: Implications of Decarbonisation Guidelines for a Sustainable Mandate

An existing client sought to understand the implications of and incorporate certain emissions reduction targets in their portfolio. The client sought to explore multiple scenarios ranging from outright exclusion of certain sectors, decarbonisation based on portfolio WACI and a net-zero solution. Western Asset manages multiple mandates for the client with different investment universes. Based on our modelling, we were able to demonstrate the nuances of applying the aforementioned scenarios to different mandates and assess the credibility of meeting investment and sustainability objectives.

► **Outcome:** The dialogue with the client spanned several months. Through our collaborative discussions, the client developed an understanding of the implications of different decarbonisation approaches for different fixed-income sectors and the connotations for sector and issuer concentration limits. The client, having reviewed the studies of various climate-related guidelines, decided to incorporate sustainable guidelines linked to their decarbonisation objectives.

Transparent and Detailed Reporting

The Firm has developed a comprehensive reporting suite that allows us to measure a portfolio's alignment on key sustainability indicators that can be customised to accommodate specific client needs. In addition to monitoring and reporting on economic performance and portfolio risk, we are also able to monitor and report on the following upon request:

- The ESG score and WACI at an overall portfolio level and across sectors
- UN SDG allocation based on the Firm's proprietary framework
- Exposure to issuers with carbon reduction, water consumption, use of cleaner energy sources, toxic emission reduction and management targets
- Distribution of ESG ratings for the portfolio and across sectors
- ESG rating momentum
- Alignment with Paris-aligned climate scenario
- Top- and bottom-10 ESG contributors and detractors
- Engagement summary reports
- Portfolio ESG rating and split across sectors
- Portfolio WACI and WACI split across sectors
- Top- and bottom-10 ESG laggards and leaders
- Issuers with environmental targets, and
- Investments in labelled thematic bonds (e.g., green, social, sustainable and sustainability-linked bonds).

As part of engagement reporting, we include details such as the date engaged, the issuer, the issue discussed, details of engagement, next steps, credible timeline, escalation (if relevant), ESG outlook and impact on investment decision, where material. We believe in setting credible timelines to meet clients' expectations and match with the issuer's progress. Timelines may be based on the magnitude and severity of the theme being discussed, credibility of constraints highlighted by the issuer and the potential impact on the issuer's valuations that may affect clients' portfolios.

We also provide clients with climate-mandate-specific reports that include data on the WACI, which is the recommended metric by TCFD. In line with UK regulatory requirements, Western Asset released its inaugural [TCFD Report](#) on June 30, 2024, which describes our climate strategy and provides climate metrics at a firm-wide level.

As part of its reporting capabilities, Western Asset also has the ability to disclose information such as alignment with net-zero initiatives, alignment with SDGs (such as SDG 7 on Affordable and Clean Energy and SDG 13 on Climate Action), and issuers with decarbonisation, water consumption and toxic emissions reduction targets, where requested by clients.

Evolving to Meet our Clients' Needs

Western Asset's teams continually work towards the development of new tools and systems to support the ever-growing demands on sustainable investing.

The Firm continues to collaborate with clients to develop solutions as well as customise segregated mandates that address their sustainable investing and financial objectives. This includes working with clients to understand the relevance and consequences of incorporating sustainable guidelines into model portfolios and calculated expected risk and return parameters. We also help clients understand the implications of future trajectories and trends on portfolio construction from a risk/return perspective, based on ESG guidelines. Integration of ESG requirements in existing portfolios with set investment objectives, guidelines and risk tolerances is complex and requires considerable thought and analysis. Western Asset seeks to support our clients' ESG advancement intentions, while informing them of unintended consequences and helping them to optimise portfolios to achieve the relevant objectives. Integration of ESG considerations is data focused, and as a result, we have been integrating ever greater quantities of data to enable us to monitor a broader set of sustainable investment guidelines and provide our Investment Management Team with actionable information in relation to relevant issuers.

To assist our clients in fulfilling their stewardship reporting needs to their beneficiaries, Western Asset helps to document and discuss details of recent stewardship and ESG-related investment activities and their outcomes during regularly scheduled client review meetings. Western Asset has considered feedback from our clients and has increased and enhanced the quality of ESG reporting in our reporting materials, including details of portfolio ESG metrics and engagements with companies over the reporting period.



"At Western Asset we believe it is imperative to align clients' sustainability and investment objectives. As part of this process, it is important to understand, assess and explain any potential trade-offs that may arise based on the interplay between financial and sustainability risks and opportunities when constructing portfolios. Transparency and partnership with clients allow us to set clear portfolio guidelines to credibly orient investment and sustainability decisions."

– Brishni Mukhopadhyay, CFA, Product Management

“Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.”



“Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.”

Our ESG Integration

As detailed under Principle 1, Western Asset’s investment philosophy is centred around the principles of fundamental value and diversification. Analysis of financially material ESG factors play an important role in identifying investment opportunities with attractive risk-return profiles. At the base level, investment professionals at Western Asset consider a wide range of macroeconomic and geopolitical factors to form an outlook for the challenges and opportunities that issuers will face.

At the issuer level, Western Asset’s research analysts assess the potential impacts of financially material ESG factors alongside traditional financial and economic factors, seeking to determine whether an issuer’s ESG practices may present an investment opportunity or risk. Western Asset’s research analysts have developed proprietary investment frameworks to help evaluate ESG risks and opportunities for issuers in the credit, sovereign, structured product, agency and municipals fixed-income product asset classes.

Western Asset draws upon proprietary research as well as third-party data to assess an issuer’s ESG performance and outlook. The types and relative importance of factors vary depending on the sector as well as the individual issuer. Investments that do not meet the Firm’s standards, such as but not limited to ESG ratings, ability to respond quickly to queries on material financial concerns, and sufficient transparency on key issues, are treated as having higher risk, as their future ability to repay debt may be adversely affected by developments such as legal sanctions, the introduction of new regulations or shifts in consumer sentiment. The Investment Management Team documents assessments of held issuers with financially material ESG concerns in the Firm’s internal research and engagement platform, alongside ESG ratings.

Environmental Factors

Western Asset recognises the importance of analysing financially material transition and physical climate risks at the issuer as well as the portfolio level, and as a result the Firm’s research analysts seek to identify and analyse financially material climate-related risks and opportunities as part of their overall research process. This research is supplemented by the Firm’s ESG and risk management specialists. The Firm has developed climate risk assessment and reporting tools that enable the Firm’s Investment Management Team to get a better understanding of environmental factors such as WACI and greenhouse gas emissions reduction targets.

Social Factors

Social factors can impact consumers’ perception of an issuer as well as the issuer’s operations. Western Asset seeks to monitor financially material social factors such as, but not restricted to, supply-chain-related issues, employee relations, labour rights, cybersecurity, and health and safety practices. In addition to conducting primary research and engagement, Western Asset may also leverage third-party data to assess alignment with human capital. Social considerations are important in the Firm’s evaluation of sovereign issuers, where demographic composition, socioeconomic trends and income distribution can significantly impact the growth trajectory of the country.

Governance Factors

Governance risks play a critical role in Western Asset's ESG analysis, as governance lays the foundation for a well-run, sustainable business. The Firm considers governance crucial not only as a standalone risk factor, but also as a signal for how the issuer manages 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 appropriate leadership and integrity will be in place for long-term sustainability. As a result, if an issuer lacks appropriate governance arrangements, the Firm's investment professionals are unlikely to invest even if they have strong environmental or social credentials.

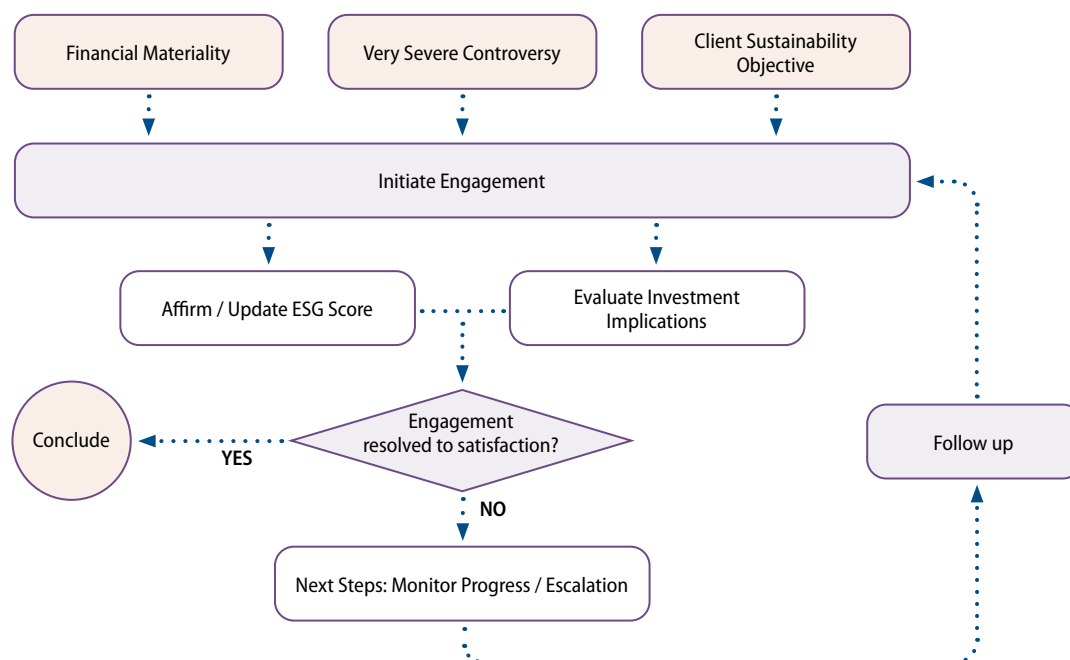
Our ESG Engagement

When evaluating investment opportunities, Western Asset's research analysts seek to engage in dialogue with issuer management to obtain additional perspective and develop a more informed investment outlook. Western Asset views engagement as a tool to evaluate financial risks, including ESG-related factors that are inadequately addressed by existing policies and disclosures. The Firm's research analysts may also engage to increase awareness of the importance of financially material ESG considerations through their conversations with management. We further detail this engagement in response to Principle 9.

Research analysts may engage issuers on materially deficient business practices. Although bondholders possess very different legal rights than shareholders, the Firm believes it can impact corporate practices, including those that relate to ESG matters, given its role in determining issuers' cost of debt capital. As long-term, value-oriented investors, the Firm may seek compensation in wider spreads from issuers that lag their peers in addressing financially material ESG risks. Conversely, the Firm may favour issuers whose ESG profiles seem likely to improve but whose spreads overcompensate for historical deficiencies.

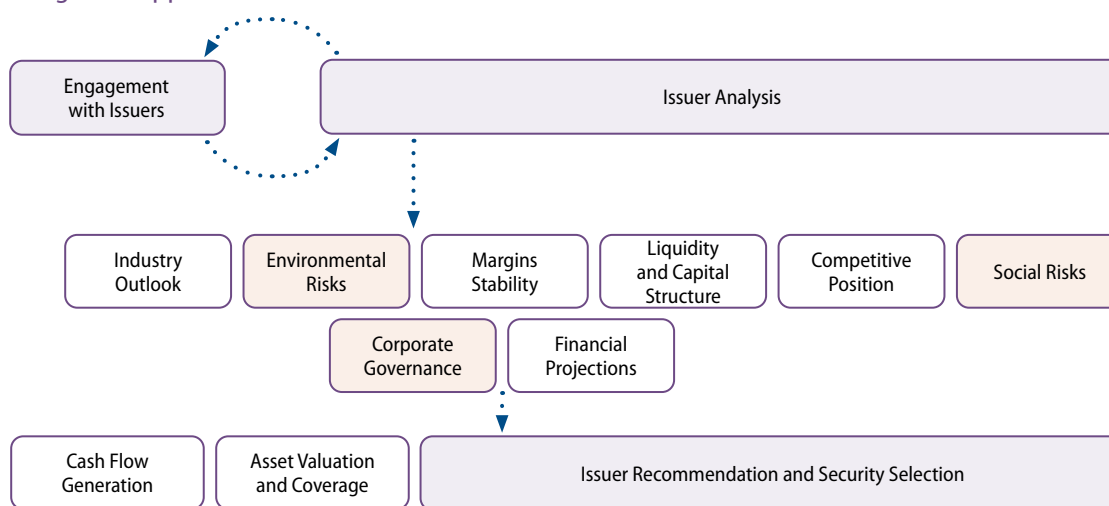
Engagement Process

Interplay between financially material ESG risks and financial considerations.



Western Asset seeks to align its engagement process with the United Nations Global Compact (UNGC) principles, which are widely accepted corporate sustainability guidelines that meet fundamental responsibilities in the areas of anti-corruption, human rights, labour and the environment. The Ten Principles of the UNGC are derived from international norms established by 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.

Integrated Approach



Portfolio Construction

Western Asset's portfolio managers utilise the ESG research conducted by our research analysts and construct portfolios with ESG risks in mind, among other relevant risks, while also seeking to benefit from opportunities. Each portfolio undergoes top-down analysis that draws on ESG considerations, among other factors. Duration and yield-curve positioning are set based on the Firm's macroeconomic views. The Firm's ESG industry and subsector outlook supplements the portfolio construction process.

Risk Management

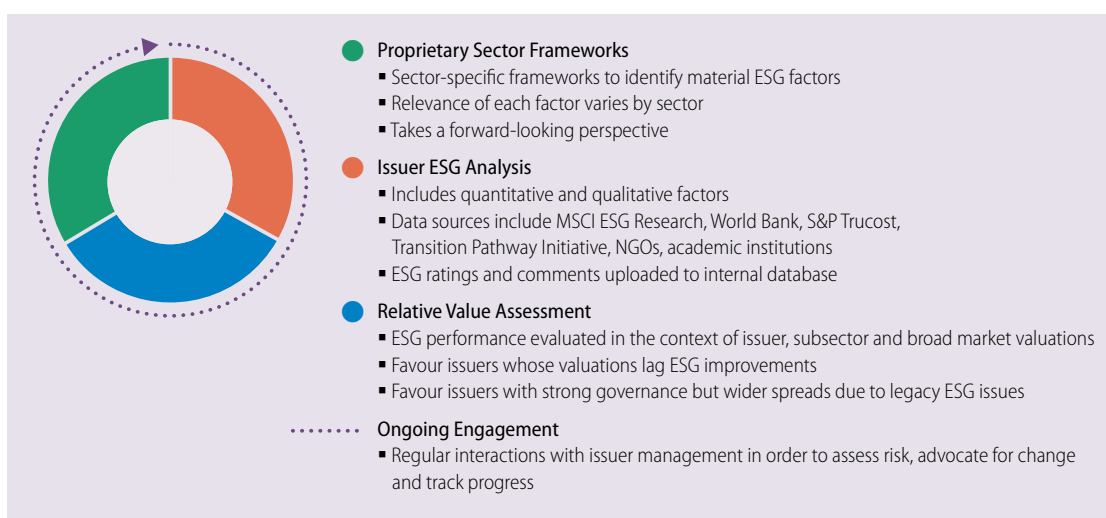
Robust risk management is integrated into Western Asset's investment process. Research analysts assess issuers from the debtholder perspective, evaluating the risk premium for factors that could impact creditworthiness. The research analysts complement fundamental credit research and analysis with an assessment of material ESG risks such as climate change (physical risks and transition risks from the move to a low-carbon economy), human rights and supply-chain management, product safety and security, diversity and development of talent, transparency, board structure and governance.

Western Asset has also developed a proprietary methodology to conduct climate stress tests on client portfolios. These climate stress tests are run through the Firm's proprietary risk system, WISER, to allow us to understand and measure the impact of climate-related risks in a variety of scenarios. The methodology uses climate pathways, based on data published by the IPCC linking potential future carbon prices to temperature rise. Western Asset's Risk Management Team has also developed an optimiser that proposes asset swaps within a portfolio to achieve lower carbon intensity while maintaining other risk characteristics such as duration, yield and sector exposure. This tool can be utilised across several Western Asset strategies. The Firm is also able to apply a shadow carbon price based on emissions to calculate impact on the issuer's ability to meet debt obligations.

Our ESG Approach

As a fiduciary, we first and foremost follow the investment guidelines set out by each client. Our clients include large financial institutions and corporations, investment funds, sovereign wealth funds and central banks, pension schemes, insurance companies, and endowments and foundations. As a result, the investment guidelines differ from client to client and may incorporate different sustainable investing beliefs and exclusions.

We recognise there is no universal standard for evaluating ESG investments. Western Asset works with each client to develop the most appropriate set of investment guidelines that will meet their specific investment needs. For instance, a pension plan client might require extensive engagement with issuers, the application of stricter risk measures and higher reporting requirements. In contrast, a central bank client may place higher emphasis on staff training and helping them understand investment concepts and global financial markets. Regardless of the specific circumstances, we collaborate with each client to come up with a solution that fulfils their particular requirements, while ESG considerations are integrated into Western Asset's research, portfolio construction and risk management processes.



Case Study: Engagement With an Emerging Markets Sovereign on Its Inaugural Green Bond Issuance

Western Asset engaged with an emerging markets sovereign to assess credibility and discuss features of its inaugural green bond. The engagement allowed us to better understand several key elements of the sovereign's sustainability plans. These included prioritisation of climate-change-related and natural-capital-related risks and opportunities in the issuer's growth and development plans; green bond framework on the intended use of proceeds; and potential alignment with institutional architecture such as on carbon tax and climate budget tagging.

Western Asset learnt that the issuer wanted to increase investment in climate mitigation and adaptation mechanisms. The issuer had received support from the World Bank. The World Bank was comfortable with the issuer's green bond framework based on the use of proceeds. We discussed how the usage of proceeds would be for activities such as low-carbon transportation, renewable energy, efficient water and wastewater management, natural resource management, and sustainable agriculture to mention a few aspects.

► **Outcome:** Based on our assessment of the issuer's sustainable investment credibility, Western Asset invested in the bond. Western Asset is monitoring the issuer to assess progress as it seeks to deploy proceeds in line with its green bond framework.

Case Study: Engagement With a European Utilities Issuer on Its Sustainability-Linked Bond and the Implications for Its Decarbonisation Goals

Western Asset engaged with a European utilities issuer to assess feasibility of meeting carbon emissions reduction targets, which formed part of the Key Performance Indicators (KPIs) of their sustainability linked bonds. The issuer had a number of bonds outstanding that were potentially at risk of missing their milestones, which would then result in an increase in coupon payments by 25 basis points (bps). We wanted to understand the rationale for missing emission reduction targets and the implication on the issuer's long-term net-zero commitments.

Western Asset learnt that one of the main drivers for the issuer missing its emissions reduction targets was its increased consumption of coal to produce electricity due to geopolitical developments forcing it to reduce its consumption of gas. In our assessment, the increased interest payment to issuers arising from a coupon step up of 25 bps was manageable for the issuer, given its EBITDA. The issuer also noted its long-term commitment to meet its net-zero goals, focusing on an increased capex allocation to networks to connect the renewable energy capacity being built and to phase out of coal. We indicated our desire for sustainable KPIs to be credible and that we are supportive of the issuer's long-term goals.

► **Outcome:** Western Asset decided to monitor the progress made by the issuer but continue to invest in the bonds. Based on the engagement, we have maintained our overall ESG rating of the issuer.

“Signatories monitor and hold to account managers and/or service providers.”



“Signatories monitor and hold to account managers and/or service providers.”

ESG Data Service Providers

Western Asset subscribes to a variety of third-party data providers to complement our proprietary ESG research. The table below illustrates the ESG data resources the Firm leveraged during the Reporting Year.

ESG Data Provider	Description	ESG Data Provider	Description
MSCI-ESG Research	<ul style="list-style-type: none"> ESG Research 	Bloomberg	<ul style="list-style-type: none"> ESG Data ESG-Labelled Bonds CDP Integrated Performance Score ICMA Principles Indicator
MSCI-SRI	<ul style="list-style-type: none"> Business Involvement Screening ESG Controversy Intelligence Global Sanctions 	Transition Pathway Initiative (TPI)	<ul style="list-style-type: none"> Climate Alignment
MSCI-Climate Solutions	<ul style="list-style-type: none"> Forward-Looking Targets Climate VaR Implied Temperature Rise Fossil Fuel Screening 	Science-Based Target Initiative (SBTi)	<ul style="list-style-type: none"> Climate Alignment
MSCI-Regulatory Solutions	<ul style="list-style-type: none"> SFDR Principal Adverse Impact (PAI) EU Taxonomy 	Urgewald	<ul style="list-style-type: none"> Thermal Coal
		World Bank	<ul style="list-style-type: none"> Sovereign GHG Emissions

Oversight of Third-Party Relationships

All third-party relationships are managed on a day-to-day basis by the relevant business area. Oversight activities include regular management meetings, monitoring of service level agreements or other relevant metrics, review of key control reports (e.g., SOC1 or SOC2) and monitoring of the vendor’s financial health. Our Enterprise Risk Management Group also runs a broad vendor management programme, which includes a Vendor Management Committee consisting of senior individuals from across the Firm. The programme’s goal is to ensure a consistent approach to monitoring the operational, information security and resilience risks of any of our vendor or service providers.

Engaging With Data Providers to Understand Implications of and Improve Data Quality

Before commencing any engagement, we work with third-party agencies to understand their views and rationale around ESG considerations where relevant. We are also aware that third parties may revise their assessment and we seek to understand the rationale where such revisions are not fully explained. Over the course of the Reporting Year, Western Asset had multiple engagements with various data providers on a range of themes. These included highlighting concerns on data quality where relevant, assessing various tools offered and evaluating alignment with regulatory requirements.

Case Study: Assessing the Implications of a Service Provider’s EU SFDR Do No Significant Harm (DNSH) Screens

Western Asset met with an ESG data provider on the implications of their EU SFDR DNSH screens. As there is currently no precise definition of what DNSH entails, different data vendors have adopted differing methodologies within their screening process. We learned that the data provider’s approach excluded even those companies with minimal revenue from thermal coal.

Our research and engagement with utilities issuers leads us to believe that the data providers’ DNSH screens may inadvertently exclude some issuers, which have had to increase their access to thermal coal owing to current geopolitical considerations. Additionally, unlike many equity benchmarks, utilities issuers are a key

component of various fixed-income benchmarks, and onerous exclusions may have financial implications for clients' bond portfolios.

► **Outcome:** Based on our concerns, the data provider has agreed to review its process to align with the nuances of a bond investor's investment universe and current geopolitical considerations. We have continued to monitor the progress made by the data vendor and share our feedback.

Case Study: Engaging With a Data Provider on Their Data Accuracy and Quality

As Western Asset manages multiple portfolios for clients that have decarbonisation guidelines, it is crucial to have access to accurate data on issuers and their alignment to decarbonisation goals. Western Asset observed a mismatch between a third-party data provider and the Science Based Targets initiative (SBTi)'s flags on alignment to decarbonisation targets for several issuers. The inconsistency was flagged to the third-party data provider.

► **Outcome:** Based on our query, the data provider was able to investigate and correct the data. This reinforced our belief in the need to seek to understand and, where relevant, investigate the credibility of ESG data metrics that may form an input to overall issuer assessment and portfolio construction

Case Study: Engagement With an Australian Issuer Based on Concerns Around ESG Rating Provided by a Third-Party Data Provider

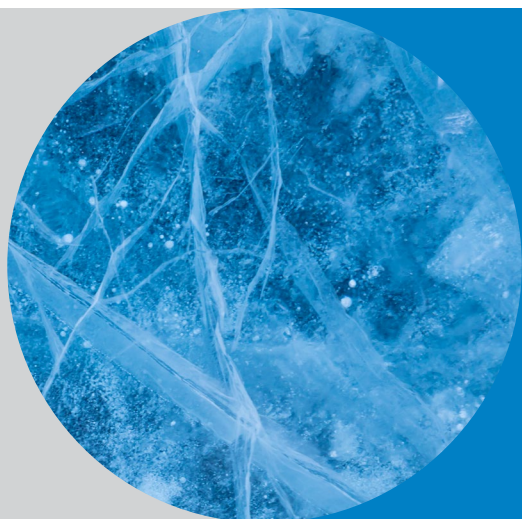
Western Asset noted that a third-party data provider downgraded the ESG rating from a moderate risk to a severe risk based on human rights concerns. The overall assessment by the data provider was based on risks to affected workers and the serious nature of alleged harm reflected by labour and civil rights violations. Based on the nature of the business conducted by the issuer, we had doubts and therefore engaged with the issuer to get further clarity.

Western Asset learnt that the source material highlighted by the third-party data provider as a reason for the downgrade was in relation to a separate entity that bore a distant relationship to the Australian business. The issuer indicated that the story that was referenced as a reason for the downgrade had been closed without implicating the issuer. The issuer was also able to outline how it seeks to ensure that supply chains do not breach guidelines on modern slavery, human rights and sustainability. Upon further inquiry we were informed that approximately two thirds of the 4,500 suppliers were audited annually by independent auditors and issues raised were addressed within three months. The company had also established communication channels for workers in various locations to report any workplace issues.

► **Outcome:** Issuers that are mis-rated by third-party data providers may run the risk of being excluded based on client sustainable guidelines. Based on our engagement, we were comfortable that the downgrade in ESG risk was a result of erroneous mapping and not material for the issuer. We therefore affirmed our overall ESG rating and did not downgrade the issuer.

At Western Asset we believe that it is important to share feedback and work with data providers and issuers to help them address gaps and improve the quality of data we utilise as part of our ongoing efforts as responsible stewards of our clients' capital. Based on our engagement, we also realise that some issuers may not fully understand the implications of their ESG scores awarded by data providers. In such instances, where material, we seek to alert or work with the issuer and data vendor. The data we utilise forms the basis of our in-depth research process as well as ongoing monitoring of compliance with client investment and sustainability guidelines. We appreciate the scrutiny our clients face to ensure they comply with their investment objectives, and as such we work to ensure the data is available, accurate and actionable.

"Signatories engage with issuers to maintain or enhance the value of assets."



“Signatories engage with issuers to maintain or enhance the value of assets.”

As outlined in Principle 7, dialogue between our research analysts and issuer management is key to evaluating investment opportunities for our clients and permits us to obtain additional perspective on ESG concerns that may be otherwise inadequately addressed. Our dialogue is guided by our ESG Statement, which is based on UNGC Principle 2⁴ and generally follows these themes:

Climate Risk and Environmental Management

- Understand the 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

- Analyse skill set balance and representation by gender/ethnicity/sexual orientation at both the board and executive levels
- Understand the 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 the issuer's supply chain
- Understand and encourage issuer policies and controls to reduce child and forced labour, and maintain humane working conditions

Product Safety and Security

- Understand the issuer's standards and controls for maintaining product safety and security, including cybersecurity
- Encourage best practices for quality control and safeguards to minimise the 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-favourable business practices

⁴The UNGC principles are widely accepted corporate sustainability principles that meet fundamental responsibilities in the areas of anti-corruption, human rights, labour and the environment, and are derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption

Engagement can also depend upon how critical or financially material an ESG factor might be, based on new information or news that emerges about a particular issuer. This is important as it allows us to understand issuers' ability to assess critical ESG issues and to incorporate them into their policies and operations.

Additionally, engagements can be based on wider themes that apply across a group of issuers. For example, in the Reporting Year, we engaged with a number of issuers in the oil and gas sectors on their approaches to manage and reduce methane flaring, as well as their overall climate risk management strategies. Although bondholders possess very different legal rights than shareholders, Western Asset believes it can impact corporate ESG practices given its role.

Our Engagement Process

Engagement activities are led primarily by the research analysts. Engagement is performed at a variety of touchpoints: around primary issuance, earnings reports, investor conferences, and ad hoc. At the outset, the Firm asks issuers to respond to questions, including with respect to plans to disclose and integrate sustainability into their business strategy.

As part of our engagements, our research analysts have access to senior executives of firms such as CEOs, CFOs, heads of sustainability, heads of investor relations and other relevant senior personnel best placed to understand and address our ESG concerns.

Engagements are documented primarily in VerityRMS and include an assessment of progress on material issues. The timeframe for resolution of issues raised with issuer management is dependent upon the complexity and degree of change required. For example, a request to improve reporting might be expected to resolve more quickly than conversations around long-term carbon reduction. The Firm's engagement framework facilitates escalation where analysts conclude that issuers are deviating from or lagging in their implementation of publicly disclosed sustainability policies or those referenced in previous engagements. Such escalation can result in a reduction in exposure to or divestment from the issuer in client portfolios.



Engagement Case Study: Engagements With Multiple Energy Companies on Methane Emissions Reduction

Western Asset engaged with over a dozen issuers across the energy sector to gauge their strategies for managing greenhouse gas emissions, with a particular emphasis on methane, which has a significantly longer half-life and potency than carbon dioxide and is estimated to account for more than a quarter of global warming. Some of these issuers have either made statements or voluntary commitments to disclose or reduce methane emissions. We reviewed each issuer's methane flaring reduction targets and plans to reach them, and in the cases where no targets had yet been set, discussed the issuer's methane management strategy going forward. We also discussed each issuer's views on and level of participation in collaborative industry initiatives to reduce methane emissions. Finally, we sought each issuer's perspective on the challenges in getting to zero methane and how to address those.

► **Outcome:** While we were able to assess, through our engagements, the leaders and laggards within our portfolio companies, we were pleased to see that the issuers largely recognised the financial materiality of reducing methane emissions and thus had made significant progress towards their targets. In some cases, issuers had reached their targets ahead of schedule. As a result, this led us to upgrade our internal assessment

of some of the issuers' overall ESG profiles. In other cases, we wanted to see formal targets be set and see more detailed disclosure about sources of methane emission. We will continue to be in dialogue with issuers to monitor progress on target setting and goal achievement.

Case Study: Assess Credibility of a European Issuer on Its Sustainable Finance Framework

As part of a deal roadshow organised by a European issuer we asked management about their sustainable finance framework. The CEO indicated that they were looking at the framework. We understand now that the scale of their renewable projects might not be sufficient yet for a "use of proceeds" green bond, and that their internal monitoring process of sustainable KPIs may not have been finalised for a sustainability-linked bond. Western Asset suggested that the issuer could consider the SBTi platform to formalise their emission reductions. The issuer indicated that despite some initial exchange, more work needed to be done on scope 3 emissions before being able to publish any target or commitment.

► **Outcome:** Western Asset understands that issuers will adopt different sustainable frameworks to raise assets for sustainable projects and that many issuers are at different stages of their sustainability journey. We also understand the challenges around scope 3 emissions. As responsible stewards of our clients' capital, we seek to assess the credibility of financing, the progress to date and the monitoring process before investing. While Western Asset did not invest on this occasion, we planned to continue to monitor progress made by the issuer.

Case Study: Verification of SBTi-Aligned Targets for a UK REIT Based on Reported Commitments

Western Asset engaged with a UK Real Estate Investment Trust (REIT) that has a focus on renting properties primarily to National Health Service (NHS) counterparties. While Western Asset notes the strong social component involved in providing quality properties to NHS, the engagement was focused on assessing the issuer's SBTi alignment. We noted that the reports mentioned SBTi alignment in 2023, but not in 2024.

Upon engagement, the issuer mentioned their need for detailed data from General Practitioners (GPs) operating the individual buildings, ideally including energy usage on an hourly basis. This data had been slow to come through, as not all GPs have access to such data and given other pressures on GPs. Once such data is available, the issuer would likely be in a better position to partner with GPs to help them save energy.

We were also given to understand that the issuer's portfolio management team meets regularly with customers to understand their needs and concerns around energy usage and works with them to identify energy saving opportunities. Additionally, energy procured by the issuer on behalf of customers was via a 100% renewably sourced tariff.

► **Outcome:** Given the partnership approach needed to upgrade properties, the difficulty inherent in working on medical properties, and potential delays seen in the rental agreement process with NHS counterparties, Western Asset believes that the efforts made by the issuer to date were commendable. Western Asset determined we would monitor the progress made to align with SBTi standards and affirmed the Firm's ESG rating for the issuer. We will continue to monitor progress made by the issuer as it seeks disclosure in 2025.

Case Study: Assess Implications for a UK Bank Based on Public Debate on Higher Rates Not Being Passed Through to Depositors

Western Asset engaged with a UK bank following calls for a windfall tax on banks. The central issue revolved around most banks being quick to increase lending rates but slow at increasing deposit rates. As a UK retail lender, we wished to understand how the bank was supporting customers and plans for closing the gap between repricing of loans versus deposits.

The bank explained that it was committed to the mortgage charter, which includes payment arrangements and product switching for customers in financial difficulty due to the rapid rise in rates. The bank has also started a campaign to increase customer awareness of their expanded range of savings products. This campaign has already helped drive up the number of savings accounts opened by customers. The bank also highlighted that the public debate around supporting customers was very much focused on the retail side. However, business clients are also impacted by higher rates and the bank had been in contact with more than half a million business customers to help them build their financial resilience.

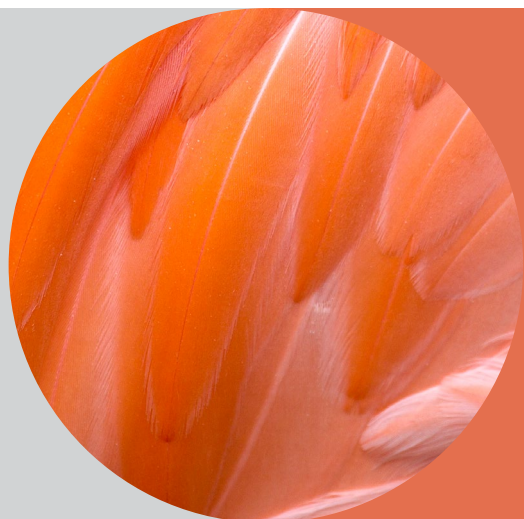
► **Outcome:** The engagement supported our view that the issuer takes its social role as a major lender seriously. We affirmed our ESG rating of the issuer and will continue to monitor implications for the issuer based on public debate and business considerations.



“As a fiduciary, we believe that engagement can play an important role in our ability to assess issuer risk and credibility in meeting sustainable commitments, to determine suitability in owning certain issuers across sustainable mandates, and to seek long-term value for our clients.”

– Connie Fischer, Director of Portfolio Operations

“Signatories, where necessary, participate in collaborative engagement to influence issuers.”



“Signatories, where necessary, participate in collaborative engagement to influence issuers.”

Western Asset regularly evaluates collaboration on initiatives where we feel we can have meaningful involvement and impact.⁵ As explained in Principle 1, Western Asset has been a founding member of the PRI SDG Advisory Committee, Sovereign Debt Advisory Committee and SFDR Working Group, Sub-Sovereign Debt Advisory Committee, and Plastic Investor Working Group. As a signatory of the UK Stewardship Code since our first filing in 2021, we work alongside other institutional investors and our clients to improve the quality of sustainable investing and its framework. Furthermore, Western Asset engages directly with issuers to help advance their ESG practices and their green, social and sustainability-linked bond issuance.

Key ESG Milestones and Initiatives



- PRI signatory since 2016
- In 2017, as a founding member of the UN PRI SDG Advisory Committee, Western Asset advised the PRI Executive on activities to encourage and support signatory alignment of investment policies and asset allocations with the SDGs.
- In 2018, as a founding member of the PRI Sovereign Working Group, the Firm helped provide guidance for signatories to integrate ESG and conduct engagement in sovereign debt analysis.
- In 2019, the Firm adopted an ESG Engagement Policy to advance its stewardship efforts and became a supporter of the TCFD and TPI.
- In 2020, as a founding member of the UN PRI Sub-sovereign Debt Advisory Committee, Western Asset collectively engaged with other investors on plastics and circular economy with petrochemical and packaging companies among others.
- UN PRI Plastics Engagement Group: In 2020, Western Asset joined the PRI Plastics Engagement working group.
- In 2021, Western Asset became a representative for the Franklin Templeton organisation for the ASCOR project. The ASCOR project is a joint effort of a number of leading organisations in the area of sustainable investments, with the goal to develop tools that allow investors to evaluate sovereign exposure to climate risk and assess governments' climate-related commitments, their policy frameworks, and action plans to address these risks. Western Asset is a contributing member to working groups focused on climate policy and financing needs.
- In 2022, the Firm became a signatory to the UK Stewardship Code.
- In 2024, the Firm published its first TCFD report, available on our website.
- Founding member of PRI Sovereign Debt Advisory Committee and SFDR Working Group
- Founding member of PRI Sub-sovereign Debt Advisory Committee
- Founding member of PRI Plastic Investor Working Group
- Participation in key industry climate initiatives
 - Supporter of TCFD
 - Supporter of TPI

⁵ The goals or initiatives of organisations that Western Asset is affiliated with or in some way supports do not necessarily reflect Western Asset's investment views or philosophy. However, these organisations often prove useful in helping Western Asset evaluate material ESG factors. Western Asset's investment philosophy remains long-term fundamental value investing in line with client investment guidelines and objectives.

Collaborative Engagement Case Study: Roundtable on Sovereign Sustainability-Linked Bond Issuance

Western Asset participated in a roundtable with representatives from the Debt Management Offices of three sovereigns, multilateral banks, NGOs and other asset managers. We discussed the development of, and advantages to, the sovereign sustainability-linked bonds market. We specifically spoke about the opportunities for candidate countries in attendance to issue these structures and advised them on the KPIs we would like to see utilised.

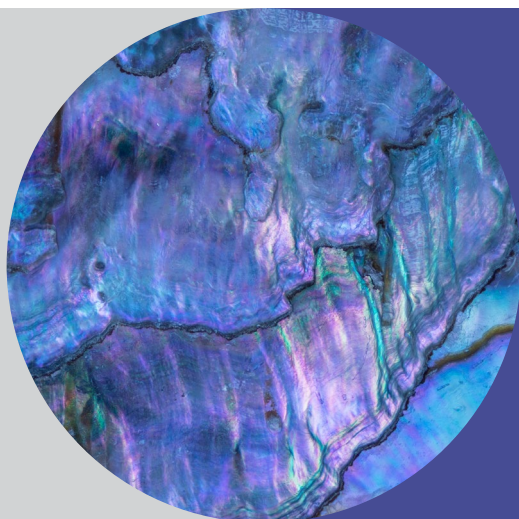
► **Outcome:** We believe that we increased awareness around types of issuance that would be more welcomed by investors. Western Asset will continue to have engagement with sovereign issuers in collaboration with peers, including through multilateral and intergovernmental organisations, to build awareness and push towards greater transparency on climate-related expenditures and national budgets. Contributing to this collaborative engagement, we highlighted the need to look at sovereign debt through the lens of SFDR and EU Taxonomy regulations, and the need to open up the full envelope of sovereign debt (not just green bonds) to sustainable capital flows. There was also agreement on the need to connect capital flows to impact, as well as the need for transparency on sovereign expenditure on climate, without which investors will find it hard to judge incremental impact from a green bond or from sustainability-linked bonds

Collaborative Engagement Case Study: Roundtable on Addressing Sovereign Climate and Debt Vulnerabilities

Per an invitation from the Institute of International Finance (IIF), Western Asset participated in a workshop with stakeholders from the public and official sectors as well as other investors to address challenges around sovereign debt restructurings that are precipitated by climate events. The group focused specifically on two instruments: debt for nature swaps (DFNs) and climate-resilient debt clauses (CRDCs). Sovereign issuer representatives expressed their desire to employ these tools and articulated their value proposition, while we and other investors expressed the need for transparency around use of proceeds and the multiplier role that multilateral development banks can play. The group also walked through the potential issues that could be encountered in debt restructuring and how structures could be improved to address these.

► **Outcome:** We believe the workshop laid further ground for the development of DFNs and CRDCs through a frank discussion of roadblocks and potential solutions. Despite the challenges, we feel that the usage of these instruments will grow over time with refinement, and will continue to contribute to the dialogue around the tools with the goal of broadening their acceptance and adoption.

“Signatories, where necessary, escalate stewardship activities to influence issuers.”



“Signatories, where necessary, escalate stewardship activities to influence issuers.”

Sustainable investing across fixed-income sectors continues to evolve. In response to client needs, we seek to shape its progress through issuer engagement while maintaining our investment philosophy of long-term fundamental value investing.

Our research analysts focus on ESG engagement objectives as part of their regular interactions with issuers. Progress and improvements are tracked in our engagement reports. Ongoing and constructive dialogue with issuers is key to this process. Where necessary, research analysts can escalate engagement issues to our ESGSSC or ESG Task Force for discussion. Some reasons why engagements might be escalated include:

- Failure to meet the desired outcome on a material matter
- A negative event occurring with no acceptable resolution plan
- An issuer being unwilling to engage in ESG-related discussions

Escalation may lead to continued engagement or divestment depending on the severity and imminence of the underlying ESG concern. Often this turns on the requirements of particular client mandates. Based on client interactions and objectives, portfolio managers may divest from certain issuers, either in discussion with clients or when these issues are against clients’ sustainability objectives. In certain instances, despite escalation to corporate management, Western Asset may be unable to get suitable responses to address our concerns, which may lead to potential divestments across multiple mandates where the risk is deemed to be unsuitable to client investment and sustainability objectives.

ESG Watch and Red Lists

As described under Principle 2, Western’s ESG Cross Mandate Task Force reviews high-risk ESG issuers and maintains watch and red lists of issuers that require increased monitoring and engagement in order to facilitate thoughtful and consistent portfolio construction across mandates:

- **ESG Watch List:** These are issuers that are deemed to have elevated risk that warrants monitoring, but not necessarily exclusion. Portfolio managers have discretion to exclude the issuer in sustainable mandates but are not required to do so.
- **ESG Red List:** These are issuers that are deemed to have severe ESG risk. These issuers should not be purchased or held in sustainable mandates unless they are included in the mandate’s benchmark universe, in which case they may be held up to their weight in the mandate’s benchmark.

Based on discussion, the ESG Cross Mandate Task Force may take a number of actions for an issuer, including addition to one of the lists or removal, amongst others.

Escalation Case Study: Assessing Severity of Risk of an Industrials Issuer Stemming From Safety and Governance Concerns

The ESG Cross Mandate Taskforce investigated an issuer whose track record on safety had caused concerns with independent experts conducting a comprehensive review to evaluate its safety management processes. The experts surmised that flawed designs, which had been hidden by members of the former leadership from regulators, may have been responsible for the safety concerns. The expert panel's findings and recommendations required the issuer to share its action plan with the regulators within a short time span. The panel identified limited awareness of reporting culture, lack of knowledge of safety initiatives, and confusion in safety reporting channels among others.

► **Outcome:** The ESG Cross Mandate Taskforce recommended the issuer to be placed on the Red List due to governance risks around poor safety procedures and the immediate resultant challenges that make the issuer unsuitable for sustainable mandates. Western Asset is monitoring the issuer's progress as it works with regulators to improve its operations and governance standards.

Escalation Case Study: Assessing Progress Made by a Mining Issuer Over Historical Concerns Around Safety

Western Asset evaluated the progress made by a mining issuer, which had been on the ESG Red List, as it sought to address historical concerns around safety. Western Asset notes that the issuer continued to be penalised over a mining disaster over five years ago. Our assessment led us to believe that the issuer had incorporated corporate governance reforms and invested a significant amount of money to address concerns that emerged in the wake of the concerns five years ago.

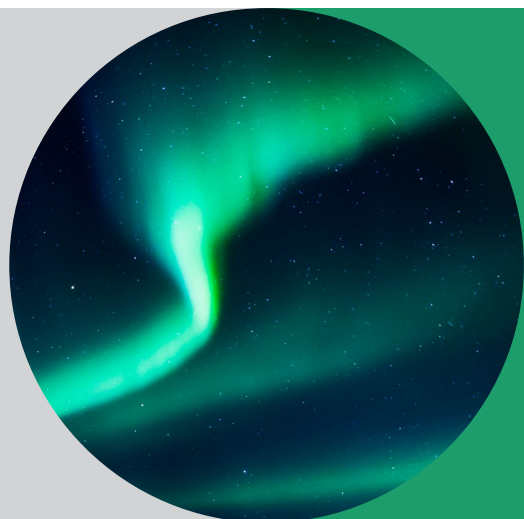
► **Outcome:** While Western Asset takes note that the mining industry carries inherently high environmental and safety risks, which need to be taken into consideration in fundamental and ESG assessments, the Firm believes that the issuer was being penalised for legacy issues. Western Asset also notes that the issuer has been assigned a broad spectrum of ESG ratings from various third-party data vendors. Based on our assessment, the ESG Cross Mandate Taskforce concluded that the issuer should be removed from the ESG Red List and placed on the ESG Watch List instead.

Escalation Case Study: State-Owned Enterprise on Coal Activity

Western Asset engaged with a state-owned metals and mining issuer in a country that has traditionally been reliant on thermal coal for its energy needs. We learned that the issuer has increased its focus on stockpiling key minerals such as lithium and nickel given the sovereign's strategy around next generation technologies, which will require capital expenditures to increase storage capacity. Alongside that, we requested an update on the issuer's previous commitment to reduce coal exposure to zero. The issuer confirmed its intent and evidenced progress with coal currently comprising 2% of revenue, down from 5% at the end of 2022. Its coal operations are currently limited to one mine, having put up for sale all other mines. The issuer was unable to give a firm target date for eliminating coal exposure.

► **Outcome:** We were satisfied to hear of the progress that the issuer has made to date on reducing coal exposure, but wanted to see the trajectory continuing and planned to re-engage in the coming months to ask for an update. We also sought to better understand the issuer's management of sustainability risks related to its increasing emphasis on mining for critical metals.

“Signatories actively exercise their rights and responsibilities.”



“Signatories actively exercise their rights and responsibilities.”

Different asset classes may require different mechanisms and avenues for asset managers to engage with issuers. As a fixed-income manager, Western Asset primarily engages with issuers through direct communication with senior management. On a rare occasion Western Asset may be in a position to vote proxies. As part of new issues or work outs, Western Asset seeks to ensure that covenants serve the needs of our clients and the research analysts will participate in covenant negotiations. Finally, Western Asset may also participate in various types of debt restructurings where it can most directly shape the path forward for the issuer.

Covenant Negotiation

We carry out extensive analysis of issuers in which we invest on behalf of our clients. Generally, research analysts will analyse quantitative, qualitative, and non-financial (including ESG) factors and trends that affect the issuer’s creditworthiness. This analysis includes a detailed assessment of the indentures and covenants of their specific bond issues. The analysis of bond issue indentures is focused on assessing the quality and robustness of covenants designed for bondholder protection. Examples of bond covenants include Change of Control (CoC) covenants that allow investors to put (sell) their bonds back to the company at 100% (or more) of the par value when majority ownership/control of the company changes and credit quality falls (therefore raising the risk of default). Research analysts will seek the strongest covenants from issuers on behalf of bondholders and the strength of covenants will determine whether and at what yield research analysts recommend an investment in a bond.

If the research analyst has concerns about the terms of an indenture or the details or absence of specific covenants, they will first escalate internally to the senior portfolio managers of the affected portfolios. Where there is sufficient interest to participate in the new issue, research analysts will communicate any covenant concerns to the issuer via the issuing bank’s bond syndication team. Where negotiations are not successful, Western Asset may decide not to participate in the new issue. In other cases, where there is a judgment that bondholder protections exist but could be stronger, the Firm may decide to limit the size of the investment and seek a higher spread over risk-free rates as a condition of investment.

Engagement Case Study: Covenant Negotiation

Western Asset engaged with a publicly traded oil and gas issuer seeking financing for a large asset acquisition, which was conditional upon the issuer obtaining certainty of financing. The issuer was seeking to obtain this financing in the private market as public market options were limited. As such, Western Asset had the opportunity to negotiate for terms favourable for its bondholder clients, including unique, off-market financial as well as ESG-related covenants.

For example, Western Asset was able to obtain an original issue discount with higher priority in the capital structure, restricted payment covenants, leverage and asset coverage tests, restrictions on the use of the senior credit facility, and callability features, all of which would not be part of the typical high-yield issue. Furthermore, Western Asset included requirements for the issuer to disclose its greenhouse gas emissions reduction activities on a quarterly basis, designate a dedicated board director to climate management, and develop scope 1 and scope 2 science-based targets.

► **Outcome:** The issuer was able to complete an acquisition that was key to its strategic business plan, while Western Asset was able to shape the bond structure through covenants that should protect the interests of the bondholders as well as support the long-term sustainability of the issuer.

Case Study: Cooperation Agreements

With the increased activity in Liability Management Exercises (LMEs) in the leveraged finance market, Western Asset is increasingly entering into Cooperation Agreements with peer institutions on the creditor side when lending to below-investment-grade issuers. Our view is that when structured properly, Cooperation Agreements can act as a guardrail against issuers considering LMEs. We ideally seek to enter Cooperation Agreements that garner support from the majority of lenders in all parts of the issuer's outstanding debt. While Cooperation Agreements are by no means impenetrable defences, they are usually a necessary first step for creditors to organise themselves.

► **Outcome:** At Western Asset, we routinely evaluate the merits of draft Cooperation Agreements and in some cases may choose to participate in them, as we believe such agreements represent a positive action against the threat of coercive exchanges sometimes referred to as "creditor-on-creditor violence."

Proxy Voting

As a fixed-income manager, Western Asset generally does not vote proxies. When rare opportunities to vote proxies do arise, these are considered based on the investment merits of the instruments and strategies involved. In the Reporting Year, there were ten proxy voting opportunities pertaining to corporate matters, similar to the previous period.

As a general proposition, Western Asset votes to encourage disclosure of information material to an issuer's business. This principle extends to ESG matters. What qualifies as material can vary, so votes are cast on a case-by-case basis but consistent with the overarching principle. Western Asset recognises that objective standards and criteria may not be available or universally agreed upon, and that there may be different views and subjective analysis regarding factors and their significance.

As a general matter, Western Asset votes to encourage management and governance practices that enhance the strength of the issuer, build value for investors and mitigate risks that might threaten their ability to operate and navigate competitive pressures.

Situations can arise in which different clients and strategies have explicit sustainable investing objectives beyond ESG risks that are generally considered material. Votes may be cast for such clients with such objectives in mind. Votes involving ESG proposals that are not otherwise addressed in the Firm's policy will be voted on a case-by-case basis consistent with our fiduciary duties to our clients, the potential consequences to the investment thesis for that issuer, and the specific facts and circumstances of each proposal.

Targeted environmental or social issues that are the subject of a proxy vote are considered on a case-by-case basis; however, as stated previously, these are rare. Constructive proposals that seek to advance the health of the issuer and the prospect for risk-adjusted returns to Western Asset's clients are viewed more favourably than proposals that advance a single issue or limit the ability of management to meet its operating objectives.

Debt Restructuring

At Western Asset, bond trading at distressed prices does not automatically trigger a sale absent a client instruction. The Investment Management Team may hold onto such securities when our analysis demonstrates

a high probability of upside potential. When an issuer becomes distressed or moves into bankruptcy, we assign additional resources to review the credit and ensure clients' interests are protected.

We view debt restructurings as an unavoidable part of managing credit assets, which represent a significant portion of the assets we manage. While our intensive bottom-up research process attempts to minimise our exposure to companies and sovereigns that may default or restructure, our fiduciary duty to clients requires that we attempt to maximise recoveries if we find ourselves in these situations. There are times when new information about an issuer could merit a sell-down of the position, but we often try to work with fellow bondholders to achieve a better financial outcome.

Creditor Committees

Since corporate bond restructurings or bankruptcy can be a medium- to long-term process, Western Asset must determine if involvement will have a positive impact on the portfolio before deciding to participate in any action. Questions we ask include: Can Western Asset influence the proceedings? Can the Firm add value? Is this in the best interests of our portfolios? Would it protect our clients' interests? To that end, the Investment Management Team conducts a complete financial analysis, including scenario, step-down and break-up value analyses, which in combination provide a reasonable estimate of asset value. Depending on the range of values and the corresponding upside potential, the Investment Management Team determines whether Western Asset should become involved in the creditor's committee, retain counsel outside of the creditor's committee, continue to hold and monitor, or sell the bonds at market value.

If Western Asset decides to become an active participant, the Firm seeks to align our interests with the other members of the bondholder committee. Generally, Western Asset has sought a voice at the negotiating table, which typically is comprised of three to seven of the largest, most experienced bondholders. Western Asset's philosophy is to work closely with management and their financial and legal advisors in order to maximise value to the bondholders within a reasonable timeframe.

Corporate Bond Restructurings

In the event that the business environment changes so that an issuer's ability to generate cash flow for interest payments is impaired, the Firm will revisit our asset valuation model to determine the relative value prospects of continuing to hold the issuer. The investment decision will be influenced by the determination of the analyst's review in terms of recovery value and time value of money. If the determination of the analyst is that the risk-adjusted total rate of return prospects are greater than that of other comparable investment options, the investment decision will be to hold the distressed or defaulted issuer. If specific portfolio guidelines restrict the holding of issuers rated below a certain rating, those guidelines will be honoured. However, a holding would not be sold specifically to avoid a default or avoid working through the recovery.

Dedicated Distressed Analyst

Although one of Western Asset's top priorities is to preserve capital and avoid defaults, the reality is that defaults do occur in the global high-yield credit markets, and with some degree of frequency. When a default occurs, the workout period can be long, arduous, time-consuming and often complicated. Western Asset has a dedicated workout portfolio manager/analyst who has worked on distressed situations for over 30 years, and who shepherds the Firm when it becomes party to a creditor's committee. Handing the workout over to the distressed analyst allows other credit analysts to continue to focus on current opportunities in the market rather than the legal complexities of a workout.

Conclusion

During the Reporting Year, we continued to enhance our sustainable investing platform, in keeping with our fiduciary duty to our clients. As good stewards, we engaged with issuers to evaluate risks and credibility, with third-party vendors to assess data quality, and with clients to understand and explain the implications of their sustainability and investment objectives, including information on the impact of new ESG guidelines on the risks and returns on their mandates.

We worked to obtain access to more data, to build and enhance reports which help our clients see sustainability changes in their mandates more clearly and to broaden, as well focus, our engagement activities with issuers. Integrating a greater diversity of ESG data into our portfolio compliance monitoring system had two tangible benefits: helping our Investment Management Team make more calibrated investment decisions, and enabling our Compliance Team to monitor ever more complex ESG guidelines in real time and on an automated basis. We understand the regulatory obligations and reputational risks our clients face and have continued to thoughtfully integrate sustainable investment decisions in their mandates, in line with their guidelines and sustainable investing policies.

During the Reporting Year, we also leveraged our governance structures to strengthen oversight and decision-making and to standardise our approach to sustainable investing across the Firm. We engaged with our peers, industry groups, and third-party data providers to seek to set better standards and improve our stewardship efforts.

We hope our 2024 Stewardship Report demonstrates our deep commitment to stewardship at Western Asset and our growing achievements in this area. While we recognise that our approach and programme will continue to evolve in light of everchanging needs and developments in the stewardship arena, we believe that we have continued to help our clients achieve their sustainable investing objectives through our stewardship efforts.

Western Asset has certain environmental, social and governance (ESG) goals or capabilities; however, not all strategies are managed to ESG oriented objectives.

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