



Western Asset Management's
Environmental, Social and Governance (ESG)

Investment Policy

The Importance
of ESG at
Western Asset

As a fundamental, value-oriented 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 analyzing these opportunities, Western Asset's investment professionals consider many factors that may impact future cash flow, including environmental, social and governance (ESG) concerns. Western Asset believes that ESG factors can affect the risk and return profile of its investments and views ESG analysis as essential to its investment process.

As a signatory to the United Nations Principles for Responsible Investment (PRI), Western Asset works alongside other institutional investors around the globe to advance PRI's six [Principles for Responsible Investment](#). These shared goals include enhancing the integration of ESG into the investment process, increasing the quality of non-financial disclosures by issuers, engaging with management to improve ESG practices, and advancing ESG integration through collaboration with asset owners and other asset managers. In accordance with the PRI, Western Asset reports annually to PRI and is evaluated on its activities and progress toward these goals.

How ESG Is
Integrated Into
Western Asset's
Investment
Process

Investment professionals at Western Asset consider a wide range of macroeconomic and geopolitical factors in order to form an outlook for the challenges and opportunities that sovereigns and companies will face. This includes analyzing how consumption of natural resources, climate change, demographics and socioeconomic development will affect global growth and health over the medium- and long-term horizon.

At the issuer level, research analysts examine ESG factors, focusing on those that can potentially affect creditworthiness. Western Asset's research analysts draw upon proprietary research as well as third-party models 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 ESG standards are treated as having higher risk, as their issuer's 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. Western Asset then evaluates whether the market is appropriately pricing the issuer's performance on those ESG factors.

Western Asset recognizes the importance of analyzing transition and physical climate risks at the issuer as well as portfolio level. The Firm's research analysts identify and analyze material climate-related risks and opportunities as part of their overall research process. Credit analysts have access to environmentally focused metrics, including carbon emissions, water usage and other climate-related metrics. This research is supplemented by the Firm's ESG and risk management specialists. The Firm has developed climate risk reporting capabilities which enable it to assess the Weighted Average Carbon Intensity (WACI) of any portfolio and its benchmark. Carbon footprint analysis for any portfolio (on a stand-alone basis and relative to a benchmark) is available via Western Asset's internal reporting and risk management

systems. The Firm can also report portfolio metrics on greenhouse gas (GHG) emissions reduction targets, water consumption reduction targets and toxic waste management, to help gauge portfolio exposure to climate risks. Western Asset is able to identify and report portfolio allocation to issuers with emissions reduction targets that are aligned with the 1.5C Degrees scenario, the Below 2 Degrees scenario, 2 Degrees scenario, International Pledges and Paris Pledges

Social factors can also impact consumers' perception of an issuer as well as the issuer's operations. Western Asset closely monitors material social factors such as, but not restricted to, supply-chain-related issues, employee relations, labor rights, health & safety practices in industries dependent on specialized physical labor such as automotive and manufacturing, and cybersecurity. In addition to conducting primary research and engagement, Western Asset also leverages third-party data to assess alignment with human capital. Social considerations are particularly important in the Firm's evaluation of sovereign issuers, where demographic composition, socioeconomic trends and income distribution can deeply affect the growth trajectory of the country.

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 its long-term environmental and social issues. Without superior governance practices, which include proactive management, robust reporting and strong risk controls, Western Asset cannot have confidence that appropriate leadership and integrity will be in place for environmental and social factors.

With all ESG factors, Western Asset evaluates the extent to which each issuer is adapting to improve its practices in the changing environment. Western Asset views corporate sustainability initiatives and disclosures as important indicators of how issuers manage their operational costs, and further develops its understanding through its dialogue with management.

Because Western Asset surveys a wide range of investment opportunities, encompassing many private as well as public issuers, the dialogue between its research analysts and issuer management is a key component in its evaluation of these opportunities. Western Asset's engagement policy is based on the principles of the United Nations Global Compact (UNGC). Engagement with management allows the Firm's research analysts to obtain additional perspective on ESG concerns that are inadequately addressed by existing policies and disclosures. In some cases, particularly with privately held issuers, Western Asset's research analysts serve to increase awareness of the importance of ESG considerations through their conversations with management.

Although bondholders obviously possess very different legal rights than shareholders, Western Asset believes that it can influence corporate ESG practices given its influence on the cost of capital. As a long-term, value-oriented investor, the Firm requires wider spreads from issuers that lag their peers in ESG practices as compensation for that risk. Conversely, the Firm rewards issuers whose ESG profiles it believes will improve but whose spreads overcompensate for historical deficiencies.

For further information about Western Asset's engagement philosophy and approach, please review the Firm's [ESG Engagement Policy](#).

Western Asset as an ESG Partner

Additional Policies

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Western Asset recognizes that there is no universal standard for evaluating investments from an ESG perspective. Asset owners can vary greatly in terms of what specific values and themes they seek to express in their portfolios. While the Firm integrates ESG analysis into all of its portfolios as part of its fundamental value research, it partners with clients who wish to overlay objectives of a more specific nature, for example, decarbonization or best-in-class ESG. Looking forward, Western Asset recognizes that the application of ESG within fixed-income sectors is evolving and seeks to shape its progress through collaboration with other institutional investors.

[ESG Engagement Policy](#)

[UK Stewardship Code Statement](#)

[WA Cluster Munitions Policy](#)

[WA SFDR Sustainability Risk Policy](#)

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