

2020 UK Stewardship Code

Western Asset Management Company Limited Statement

Western Asset Management Company Limited (WAMCL) is required under COBS 2.2.3 to include a disclosure about the nature of its commitment to the 2020 UK Stewardship Code (the Stewardship Code) or, where it does not commit to the Stewardship Code, its alternative investment strategy. The Stewardship Code is voluntary and sets out a number of principles relating to engagement by investors with issuers. WAMCL will seek to become a signatory in the 2021/2022 reporting year. The Stewardship Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies to which the Financial Reporting Council (FRC) believes institutional investors should aspire. The Stewardship Code views “stewardship” as “the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

WAMCL, together with its affiliates (collectively Western Asset, or the Firm) believes in long-term, fundamental, value-oriented investing. The Firm’s objective is to provide fixed-income clients with diversified portfolios that are tightly controlled and managed for the long term. As a UN Principles for Responsible Investment (UNPRI) signatory, Western Asset seeks to integrate sustainability considerations into its investment process in order to identify superior investment opportunities for its clients and to mitigate financial risk.

Dialogue between research analysts and issuer management is a key component in Western Asset’s evaluation of sustainability factors. Western Asset considers three types of engagement: engagement to influence change, engagement to assess sustainability risks and engagement to increase awareness of sustainability factors with issuer management. Ultimately, Western Asset seeks to engage with issuers around the following themes: Climate Risk and Environmental Management, Diversity and Development of Talent, Human Rights and Supply Chain Management, Product Safety and Security, Transparency in Reporting and Governance and Corporate Management. In addition, as a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative, Western Asset seeks to advance the goals of the Paris Agreement through its issuer engagements.

The Stewardship Code sets out 12 principles for signatories to consider and report on. Western Asset's alignment with these principles is set out below:

1. Purpose, strategy and culture

Western Asset's approach to stewardship and integration of factors related to environmental, social and governance (ESG) considerations are documented within the Firm's [ESG Policy](#), [ESG Engagement Policy](#) and [SFDR Sustainability Risk Policy](#).

2. Governance, resources and incentives

Western Asset takes a holistic approach to sustainability and engagement. Overall direction on ESG research, integration and stewardship is provided by the Firm's ESG Steering Committee, which is led by the Firm's Global Head of ESG Investments. Given Western Asset's holistic approach, all investment staff are required to consider sustainability and engage with issuers where appropriate. To support these efforts, dedicated ESG research and product specialists collaborate closely with the investment and client service teams to coordinate and implement best practices. Finally, to ensure staff interests are aligned with ESG efforts by the Firm, remuneration of investment staff takes into account the extent to which they consider sustainability risks in their investment activities.

As part of its holistic approach to sustainability, Western Asset continuously seeks opportunities to enhance its own governance programs and employee diversity, as well as to utilize environmentally friendly solutions in its office spaces.

3. Conflicts of interest

Western Asset has not identified any conflicts in relation to its stewardship approach and efforts. Western Asset maintains a Conflicts of Interest Policy that seeks to identify conflicts of interest inherent in its business and a manner by which to address any actual identified conflicts.

4. Promoting well-functioning markets

Western Asset became a signatory to the UNPRI in February 2016. Additionally, in 2017, Western Asset became a founding member of the UN PRI SDG (Sustainable Development Goals) Advisory Committee whose terms of reference include advising the PRI Executive on activities to encourage and support signatories to align their investment policies and asset allocations with the ambitions of the SDGs. In 2018, Western Asset became a founding member of the UN PRI Sovereign Working Group whose terms of reference include providing guidance for signatories to integrate ESG and conduct engagement in sovereign debt analysis. In 2020, Western Asset became a founding member of the UN PRI Sub-sovereign Debt Advisory Committee whose terms of reference include providing guidance for signatories to integrate ESG and conduct engagement in sub-sovereign debt analysis.

5. Review and assurance

Western Asset evaluates the success of incorporating ESG considerations into its investment process from a variety of angles. As a signatory to the UNPRI, Western Asset's approach to ESG investing is measured through the annual reporting process, where the Firm has experienced successive upgrades annually since it signed up to the Principles in 2016. The Firm seeks to monitor and improve the ESG practices of the issuers in which it invests through engagement activities, which it monitors as part of its proprietary research process. In addition, Western Asset is undertaking multiple projects to improve its analytical systems as well as risk management capabilities for ESG, and tracks its progress on this against internally designated timelines.

Western Asset's 2020 Public Transparency Report is available on the PRI website:

<https://www.unpri.org/signatory-directory/western-asset-management-company/1966.article>.

In its 2020 UNPRI signatory assessment, Western Asset received an "A" across all categories: higher than the median in the Sovereign/Supranational/Agency, Corporate Non-Financials, Financials, and Securitised fixed-income categories and at the median in Strategy & Governance.

6. Client and beneficiary needs

Western Asset seeks to advance the integration of ESG considerations into the portfolio management process as part of its commitment to continuous innovation and address the evolving needs of its global clients. These solutions may include launches of investment funds to support a broader investor base, or more tailored solutions specific to a client's objectives and investment restrictions. In addition, Western Asset supports its clients by offering customisable reporting solutions to accommodate specific client needs.

7. Stewardship, investment and ESG integration

Western Asset's sustainability investment approach and stewardship are integrated in its [ESG Policy](#), [ESG Engagement Policy](#) and [SFDR Sustainability Risk Policy](#).

8. Monitoring managers and service providers

Western Asset utilises external data providers to support its sustainability efforts. As part of these efforts the Firm works with the data providers to ensure quality data and usability, and evaluates new data providers that could potentially improve its existing processes.

9. Engagement

Western Asset adopted an [ESG Engagement Policy](#) in 2019. The Firm's belief is that it can, as a bondholder, push issuers to improve their behaviour around material issues by reinforcing the linkage between ESG practices and the cost of capital in our engagement with issuer management.

10. Collaboration

Western Asset believes that collaborative engagement can help accelerate declaration of targets and the achievement of such goals on stated timelines. As such, the Firm selectively engages alongside other investors with issuers on key ESG issues where its interests are aligned with the other participants.

11. Escalation

Western Asset believes that successful engagement takes significant time and effort. The time-frame for resolution varies depending on each issuer's unique situation. If an engagement with management regarding a material matter is unsuccessful, the Firm may decide to divest exposure to that issuer.

12. Exercising rights and responsibilities

Although bondholders possess very different legal rights than shareholders, the Firm believes it can impact corporate ESG practices given its role in determining issuers' cost of debt capital. The Firm reinforces the connection between good ESG practices and creditworthiness, expected spreads and valuations when engaging with issuers, pushing them to acknowledge and address poor practices. In particular, Western Asset actively seeks to engage with issuers and syndicate teams to discuss the inclusion and strength of bond covenants and indentures that provide investors protection from events such as change of control.

May 2021