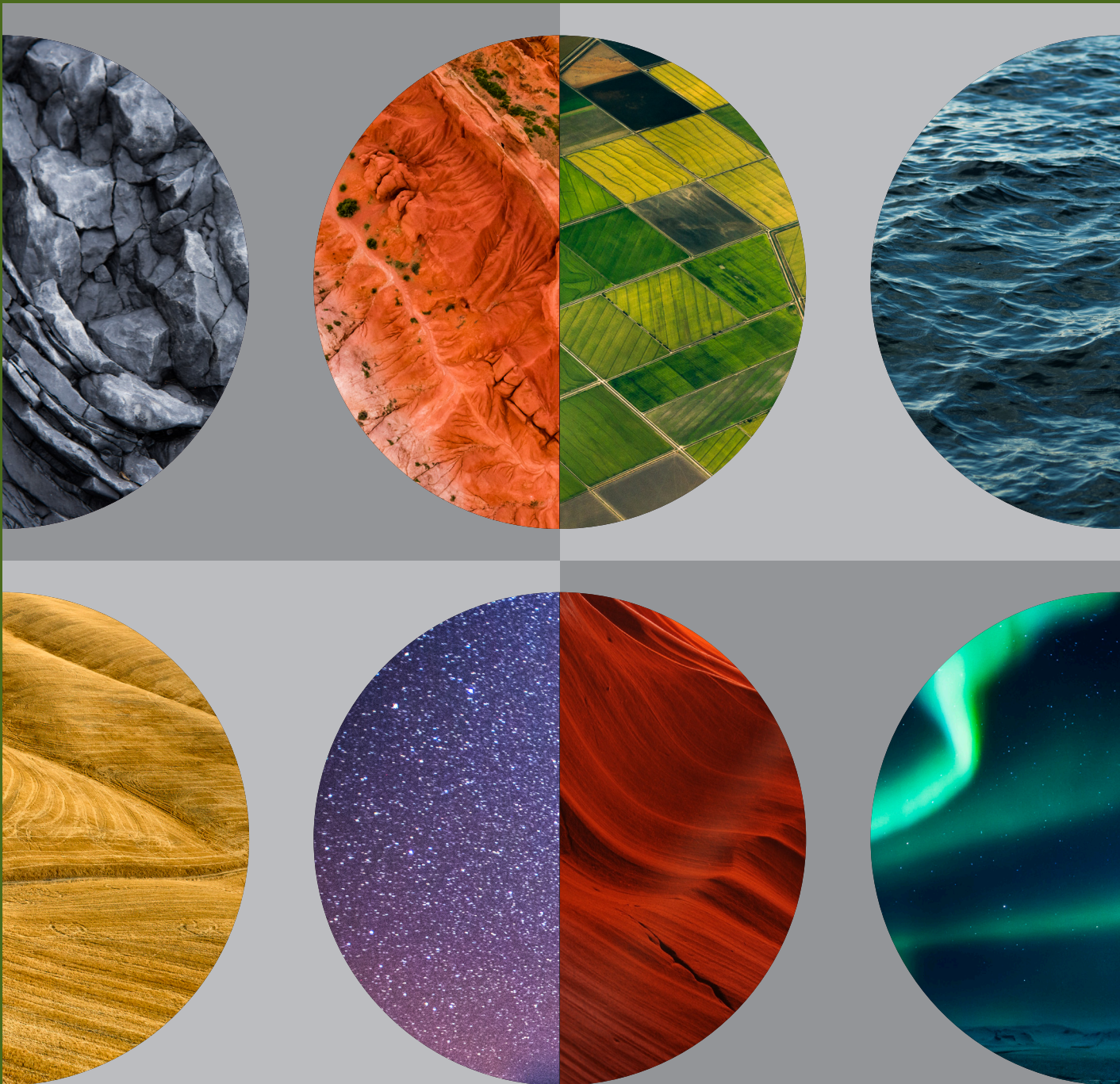


Task Force on Climate-related Financial Disclosures Report

Western Asset
As of December 31, 2023





2023

Task Force on Climate-related Financial Disclosures Report

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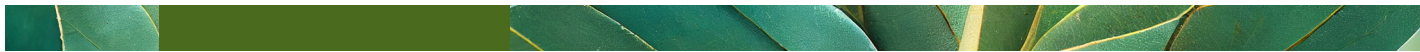
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This report is Western Asset’s first TCFD Report, and has been prepared on a best-efforts basis. Climate reporting in the asset management industry is still in its infancy, and there are significant data challenges and methodological challenges associated with climate reporting. We have included TCFD-aligned disclosures where it is fair, clear and not misleading for us to do so. We have also explained limitations on our ability to disclose, and the steps being taken to address those limitations.



Introduction

We are pleased to present the first annual climate report (Report) of Western Asset Management Company Limited (Western Asset UK), consistent with the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Western Asset UK is an entity within the larger Western Asset corporate group. As such, many of our activities, including our approach to sustainable investing, are global in nature. This Report will therefore reference our sustainable investing framework from a global perspective, and provide Western Asset UK specific information where required.

Western Asset UK is authorised and regulated by the Financial Conduct Authority (FCA), which has developed rules for asset managers, life insurers and FCA-regulated pension providers to make climate-related disclosures consistent with the recommendations of the TCFD. This report presents Western Asset UK's disclosures across the four pillars of the TCFD recommendations: Governance, Strategy, Risk Management, and Metrics and Targets.

Western Asset¹ actively manages diversified fixed-income portfolios with the goal of seeking to deliver attractive risk-adjusted returns for clients; this has been our primary focus since the Firm's founding more than 50 years ago.

We are focused on our fiduciary duties—meeting client investment objectives and maintaining infrastructure and policies that enable us to satisfy our obligations. Over the last few years, we have been focused on integrating relevant environmental, social and governance (ESG) considerations when we believe they may materially impact long-term issuer creditworthiness and performance of fixed-income investment portfolios.

Our efforts are driven by clients' requirements and targets on sustainability, which vary widely and are subject to different regulations. As a result, we seek to partner with our clients to help them meet their investment goals, including those related to sustainability. Given this variation in our clients' investment and sustainability needs, we seek opportunities for sharing best practices, transferring knowledge and designing customised solutions for them.

In this report, we outline how our processes on climate risk and opportunities apply to Western Asset as an asset manager.

TCFD provides the opportunity to continue to refine our disclosures over time. We expect to evolve our reporting in line with industry developments and regulatory requirements, as well as to reflect our deeper climate knowledge and expected improvement in climate data availability and quality.

All data in this report is as of 31 December 2023, with a reporting period of 1 January 2023 – 31 December 2023. The disclosures in this report comply with the climate-related disclosure requirements in Chapter 2 of the FCA's ESG Sourcebook.

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) (collectively Western Asset or the Firm).



Company Overview

Western Asset is a global fixed-income manager with over \$389 billion² in assets under management. Western Asset is a Specialised Investment Manager of Franklin Resources, Inc., one of the world's largest asset managers, with over US\$1.37² trillion in assets. Franklin Resources, Inc. is a holding company that operates under the Franklin Templeton® brand name. Franklin Templeton issues its own TCFD report, which is independent of this report.

As a knowledge-based business with a limited carbon footprint and supply chain, our main business functions with emissions activities include corporate real estate (Western Asset has offices in seven countries) and our investment areas through the respective investment of client portfolios.

The Firm's client base primarily includes professional investors, retirement and pension plan sponsors, fund selectors, and investment advisers.

Western Asset believes that financially material ESG factors can affect the creditworthiness of fixed-income issuers' securities and therefore impact the performance of fixed-income investment portfolios. These factors are wholly consistent with the Firm's long-term, fundamental value-oriented investment philosophy.

As fiduciaries our foremost duty is to meet the investment goals our clients have specified, which differ widely. These could include specific climate goals, such as achieving net zero emissions in the long run, but there are various strategies methods and levels of commitment to reach client objectives. Unless specifically directed by our clients, we do not set transition goals or apply climate-related exclusion policies to the portfolios we manage, as we are bound to align our portfolio management with the preferences of our clients. However, where there is a material climate risk, we seek to incorporate this into our issuer assessment.



Michael B. Zelouf, CFA
Head of London Office, Western Asset Management Company Limited

² As of 31 December 2023.

Pillar 1: Governance

Board Oversight

Western Asset UK is a private limited company managed by a Board of Directors (Board), comprised of executive and non-executive directors. The Board is ultimately responsible for governance and oversight of the activities of the Firm, including its portfolio management activities; this includes the establishment of an effective and resilient governance and risk environment.

Western Asset UK considers ESG risks, including climate-related risks. Considerations include risks arising from new and changing regulations, the implementation of new or changing investment strategies, or the establishment of new products (e.g., avoiding potential misrepresentation or greenwashing).

Western Asset UK's Internal Capital Adequacy and Risk Assessment (ICARA) process considers the material risks (harms) from business activities for the development of risk scenario analysis and stress-testing. ESG risk is considered through this process. The ICARA is overseen and reviewed regularly by Western Asset UK's Board.

On a day-to-day basis, the Board relies on the ESG Strategic Steering Committee (ESGSSC), which reports directly to the Firm's Executive Committee, to develop and maintain Western Asset's sustainable investing programme. The Board is kept informed on the state of the programme and any operational developments by the Head of London Operations, who serves as the Director of the Board and is a member of the ESGSSC. He is supported in this task by the Head of London Regulatory Affairs and Compliance, who is also a member of the ESGSSC and sits at Board meetings.

Management Oversight

Sustainable investing considerations are integrated into Western Asset's governance and investment approach. Western Asset is a fixed income investor that focuses on long-term, fundamental value. We believe that these financially material ESG considerations as well as active management with issuers are key to delivering value to our clients.

Western Asset's sustainable investing efforts are led by the Global Head of ESG Investments with our ESG Product Specialist, Sustainability Risk Managers and ESG Cross-Mandate Task Force. These activities are overseen by the Firm's ESGSSC.

Its membership spans across our investment desks, product development, business heads, and heads of risk, client service and compliance.

ESG Strategic Steering Committee

The ESGSSC coordinates the Firm's global sustainable investing initiatives and products, debates key themes impacting the industry, and discusses how best to align Firm policy to client needs, regulatory obligations and operational initiatives. Meetings are held regularly on a broad variety of topics ranging from key developments, investments, sales and client requirements, and risk- and regulatory-related issues. Team members have different reporting lines that offer independent perspectives and allow for thorough discussions across issues.

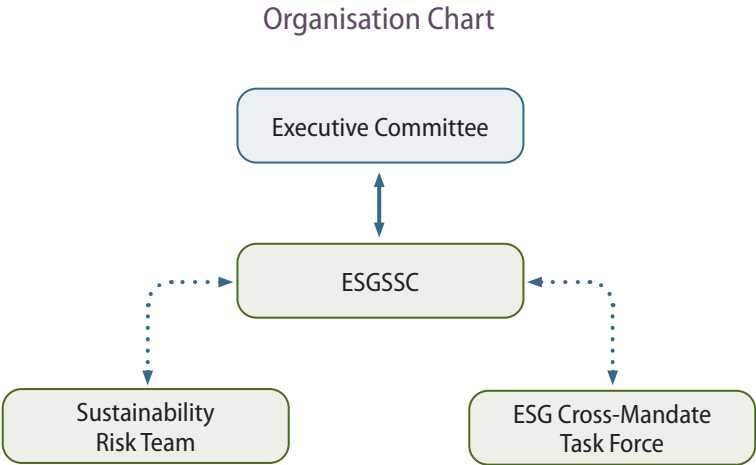
ESG Cross-Mandate Task Force

An ESG Cross-Mandate Task Force (Task Force) is in place to drive the ESGSSC’s direction more deeply within the Investment Management Team. The Task Force brings together key senior professionals from across the investment team to discuss ESG-related issues and their potential impact on fixed-income strategies. The Task Force meets regularly and is charged with identifying issuers that require increased monitoring and engagement which, in some cases, may require the exclusion of certain issuers from particular mandates based on clients’ sustainable objectives.

Sustainability Risk Team

A Sustainability Risk Team, consisting of senior Risk Management Team members, drives the dialogue on Western Asset’s sustainability risk management practices. This team focuses on applying quantitative tools, including the Firm’s Sustainability Optimiser and Climate Risk Stress Test models, to analyse potential paths for decarbonisation of portfolios, the potential impact of net-zero carbon emission commitments, greenhouse gas (GHG) reduction targets and the potential impact of transition and physical risks to the default probability of companies. Members of the Sustainability Risk Team report to our Chief Risk Officer.

The chart below outlines the governance architecture for the oversight of financially material ESG factors, including climate-related elements.



Pillar 2: Strategy

As a specialist global fixed-income manager, Western Asset is committed to providing actionable and relevant advice and solutions to clients on a range of sustainability issues, including climate change. Western Asset provides investment solutions to asset owners with a variety of sustainable objectives. Western Asset recognises that there is no universal standard for evaluating investments from an ESG or climate change perspective. Asset owners can vary greatly in terms of what specific climate risks they seek to express in their portfolios. As such, Western Asset's ESG policy framework has been developed to support our clients' investment needs and sustainability preferences, while maintaining the Firm's view that ESG factors may have an impact on the creditworthiness of a particular issuer and as a result may impact the portfolio returns of our clients.

Western Asset has historically integrated financially material ESG considerations into our portfolios as part of our fundamental value research. Additionally, we also closely partner with clients with specific sustainable investment objectives such as implementing decarbonisation goals into their portfolios. Fundamentally our role is to manage our clients' assets and we do so using the parameters our clients set out in legally binding investment guidelines. These parameters often incorporate climate risk considerations in varying degrees and formats.

Western Asset serves a wide variety of asset owners globally who have variations in their climate objectives and guidelines. Our responsibility as a fiduciary is distinct from that of asset owners who establish their own targets for reducing emissions in their portfolios. Therefore, Western Asset does not set explicit climate targets at a firm level on the portfolios that we manage.

We are prepared to assist clients who are considering or are ready to set sustainability targets and aid them in the creation and management of these targets. Western Asset manages a range of mandates across various fixed-income strategies with specific decarbonisation goals. We have built our sustainable program on globally recognised protocols by being a signatory to the United Nations Principles for Responsible Investment (PRI) and the UK Stewardship Code, ensuring that our approach meets client expectations and sustainability requirements.

As a signatory to the 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 considerations into the investment process, increasing the quality of non-financial disclosures by issuers, engaging with management to highlight key ESG practices, and advancing ESG integration through collaboration with asset owners and other asset managers. Western Asset reports on these efforts to the PRI and is evaluated on its activities and progress toward these goals.

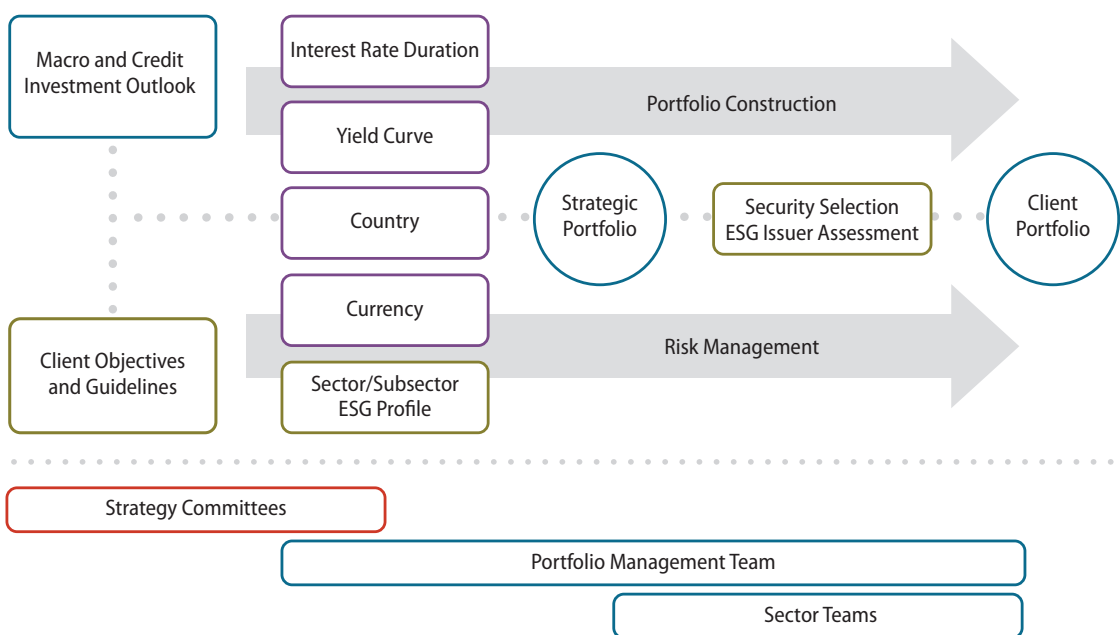
Western Asset is also a signatory to the UK Stewardship Code, which views "stewardship" as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." The UK Stewardship Code sets out a number of principles relating to investors' purpose and governance, investment approach, engagement by investors with issuers and data providers with the objective of enhancing the quality of engagement, as well as exercising rights and responsibilities, to help improve long-term returns for shareholders.

Our strategy has been to develop sustainable investing tools for our Investment Management Team to use to evaluate investments and manage portfolios, engage with issuers to analyse whether their transition plans are maximising value for investors, and provide clients with investment solutions to meet their decarbonisation ambitions.

In our efforts to effectively advance sustainable investing, Western Asset also seeks to participate in initiatives that help develop sustainable finance markets. These include:

- UN PRI Working Sub-Group on Sustainable Financial Disclosure Regulation (SFDR) and 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.
- Assessing Sovereign Climate Opportunities and Risks (ASCOR) Project
 - Western Asset is a participant in the ASCOR project, which is a joint effort of leading organisations in sustainable investments. The goal of the initiative is 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. As part of this initiative, Western Asset has been involved in formulating a methodology to develop a framework for assessing sovereign decarbonisation and the consequent implications on the financial market.
- Supporter of the TCFD and Transition Pathway Initiative (TPI) - Western Asset has been a supporter of the TCFD and TPI since 2019.

How Climate-Related Risks and Opportunities Are Factored Into Western Asset’s Investment Strategy³



Climate change is increasingly identified as a systemic risk with the potential to disrupt financial markets and the global economy as well as to impact investment returns. The risks can be physical or transitional. For instance, the risks 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.

³ While Western Asset integrates consideration and assessment of a broad range of financially material ESG risks, for the purposes of this Report and sections that follow, the focus is on climate risks.

The risks could also include physical effects of higher temperatures, including rising sea levels, floods, droughts, migration, political tensions, as well as an increased financial risk to corporate and national capital stock, as well as revenues because of climate events.


Western Asset’s approach is to integrate financially material climate considerations, amongst other factors, into the research, engagement, portfolio construction and risk management portions of our investment process. Western Asset believes that financially material climate factors can affect the creditworthiness of fixed-income issuers’ securities and therefore impact the performance of fixed-income investment portfolios.

Portfolio Managers synthesise the fundamental and relative value analysis of research analysts with the technical input of 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. Portfolio Managers tailor investments to client-specific sustainability goals, which influence selection, sizing and sector allocation. The sustainability goals may cover exclusions, decarbonisation, alignment with UN Sustainable Development Goals (UN SDGs) such as those on climate change or access to renewables and minimum ESG ratings.

Research analysts opine on industry and issuer risk/reward characteristics and incorporate financially material climate risk considerations, amongst other sustainable risks, into their analysis. They also utilise proprietary investment frameworks to help evaluate financially material climate risks and opportunities for issuers in the credit, sovereign and structured product asset classes.

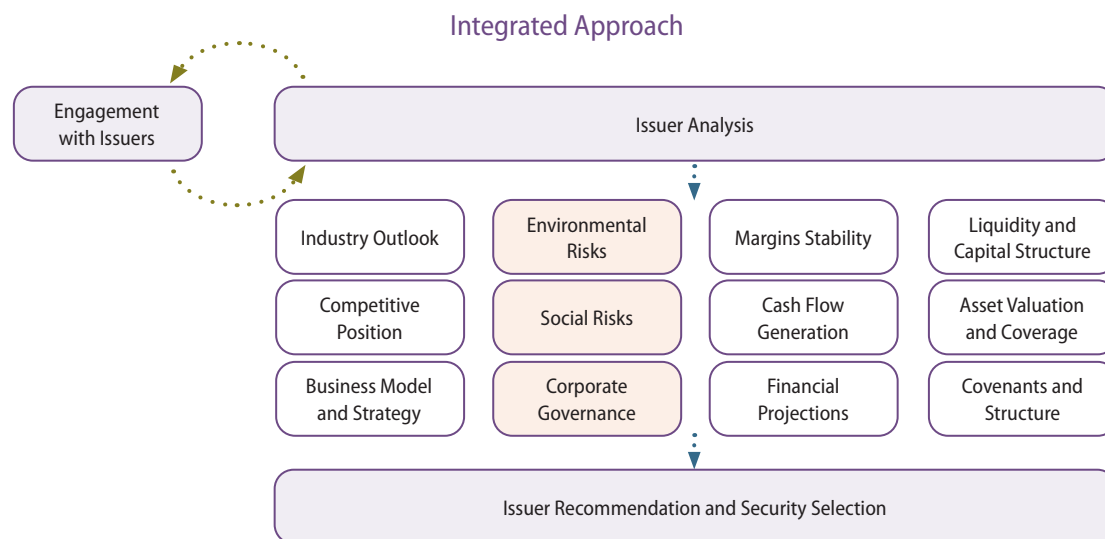
As an example, Western Asset’s own Sovereign ESG Framework includes an assessment of climate change risks and the impact of these risks on the GDP for sovereign issuers. These may include material risks such as:

- Cyclical risks such as agricultural trade exposure, freshwater withdrawal rate, exposure to extreme weather events such as cyclones, hurricanes, flood exposure, drought risk.
- Structural risks such as percentage of population that is below sea level and the impact on the economy resulting from rising water levels, impact on population due to the structural risks of climate change, percentage of GDP contribution from agriculture, fisheries, etc.
- Secular risks posed from projected changes in warm periods, flood hazards, annual run off, ground water re-charge, yields of crops, biome distribution and marine biodiversity.



- **Proprietary Sector Frameworks**
 - Sector-specific frameworks to identify material ESG factors
 - Relevance of each factor varies by sector
 - Takes a forward-looking perspective
- **Issuer ESG Analysis**
 - Includes quantitative and qualitative factors
 - Data sources include MSCI ESG Research, World Bank, S&P Trucost, Transition Pathway Initiative, NGOs, academic institutions
 - ESG ratings and comments uploaded to internal database
- **Relative Value Assessment**
 - ESG performance evaluated in the context of issuer, subsector and broad market valuations
 - Favour issuers whose valuations lag ESG improvements
 - Favour issuers with strong governance but wider spreads due to legacy ESG issues
- ⋯⋯ **Ongoing Engagement**
 - Regular interactions with issuer management in order to assess risk, advocate for change and track progress

By incorporating an assessment of such risks and opportunities into the investment process, research analysts are better able to assess the key issues likely to affect the creditworthiness of issuers.



Investments that do not meet Western Asset’s expectations are treated as having higher risk, as their future ability to pay may be adversely affected by developments such as legal sanctions, the introduction of new regulations or shifts in consumer sentiment. The Investment Management Team then evaluates whether the market is appropriately pricing the issuer’s performance based on those climate risks, amongst various other sustainability risks, as well as other risks such as market risks.

Identifying Climate-Related Risks and Opportunities Across Time Horizons

While the investment horizon may vary across client mandates depending on investment style, guidelines and client objectives, Western Asset generally evaluates the fundamental value of potential investments using a three- to five-year outlook. The time horizons associated with climate-related risks differ from our investment time horizons, and vary by risk type and asset class. Our current view is that transition risks and opportunities, as illustrated in the table below, are particularly important in the near term (three to ten years), whereas physical risks, as illustrated in the table on the following page, are increasingly important over medium to long time horizons (up to 30 years), although extreme weather events can have near-term impacts.

Type	Climate-Related Transition Risks	Time Horizon
Policy & Legal	<ul style="list-style-type: none"> Increased pricing of GHG emissions Enhanced emissions-reporting obligations Mandates on and regulation of existing products and services Exposure to litigation 	Near Term (3 to 10 years)
Technology	<ul style="list-style-type: none"> Substitution of existing products and services with lower emissions options Unsuccessful investment in new technologies Costs to transition to lower emissions technology 	
Market	<ul style="list-style-type: none"> Changing customer behaviour Uncertainty in market signals Increased cost of raw materials 	
Reputation	<ul style="list-style-type: none"> Shifts in consumer preferences Stigmatisation of sector Increased stakeholder concern or negative stakeholder feedback 	

Transition risks can stem from changes in public policy, litigation, technological advances and social preferences. Any combination of these factors can negatively affect an issuer’s revenue and operating costs, increase leverage and impact its competitive positioning. Climate-related reputational risks can also reduce the access of an issuer or an entire sector to the capital markets due to stakeholder concern over its long-term viability.

Type	Climate-Related Physical Risks	Time Horizon
Cyclical	<ul style="list-style-type: none"> ▪ Agricultural trade exposure ▪ Fresh water withdrawal rate ▪ Exposure to extreme weather events such as cyclones, hurricanes, flood exposure and drought 	Medium/ Long Term (up to 30 years)
Structural	<ul style="list-style-type: none"> ▪ Percentage of population that is below sea level ▪ Impact on the economy resulting from rising water levels ▪ Impact on population as a result of the structural risks of climate change ▪ Percent of GDP contribution from agriculture and fisheries 	
Secular	<ul style="list-style-type: none"> ▪ Exposure to: <ul style="list-style-type: none"> ◦ Warm weather periods ◦ Flood hazards ◦ Annual water runoff ◦ Declining crop yields ◦ Changes in marine biodiversity 	

Physical risks include the ongoing risks of droughts, floods and extreme heat as well as acute risks such as hurricanes and wildfires. These types of events can lead to higher insurance premiums, as well as the erosion of asset value through write-offs, impairments and early retirement.

Climate Data

Western Asset improves the evaluation of climate considerations by using data from external sources (exhibit x). Leveraging and integrating this information has been key to Western Asset’s ability to:

- Provide more in-depth assessment of issuers;
- Monitor client account compliance and regulatory obligations; and
- Provide a wider range of solutions and tools for our clients.

There are currently limitations in the robustness (e.g. completeness and accuracy) of third-party climate data, as companies globally are at different points in their journey to integrate ESG considerations and meet sustainability objectives, which can affect the quality of disclosure and transparency. Outside of climate data on corporate and sovereign issuers there is generally a lack of reliable climate data across key fixed-income asset classes, such as but not limited to Mortgage Backed Securities (MBS), Asset-Backed Securities (ABS), Collateralised Loan Obligations (CLO) Municipals and bank loans.

The Firm’s resources and tools for identifying climate risks include third-party resources such as, but not restricted to, MSCI, Bloomberg ESG, World Bank, Science-Based Targets Initiative (SBTi), Urgewald and TPI, as well as our own internal analysis and assessment.

Pillar 3: Risk Management

Climate Change Risk Management from a Bond Holder's Perspective

The starting point for the risk management activities we undertake in our role as fiduciaries is to understand clients' risk tolerances and the implications of material financial risks of climate change on issuers' creditworthiness, assessed through ESG frameworks. We seek to achieve our clients' objectives while remaining within the parameters they define. This is a collaborative process with our clients involving Client Service Executives, Risk Managers and Portfolio Managers.

Robust risk management is a key element of Western Asset's disciplined investment process. Research analysts assess material factors impacting creditworthiness and evaluate the risk premiums issuers need to offer to compensate for these risks. The research analysts complement this fundamental credit research and analysis with an assessment of financially material ESG risks such as climate change (physical risks and transition risks from the move to a low-carbon economy). Based on the research, research analysts provide an ESG score for held issuers that they believe is reflective of the underlying ESG risk.

As portfolios are constructed, Western Asset seeks to align risk exposures so that 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.

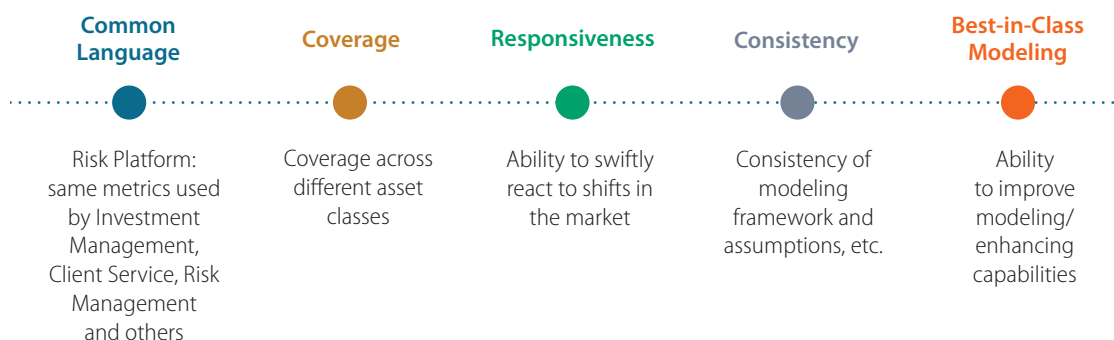
Western Asset's Risk Management & Quantitative Solutions Department (the Risk Management Team) is independent from the Investment Management Team and provides an important counterbalance. Members of the Risk Management and Investment Management Teams collaborate and communicate regularly in person, in 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 warning level process for risk monitoring, and escalating trigger points are utilised to guide Portfolio Managers' actions.

To further enhance focus on climate-related risks, the Risk Management Team established a dedicated Sustainability Risk Team. This group focuses on applying quantitative tools to analyse possible paths for the potential impact of net zero carbon emissions commitments, GHG reduction targets and the potential financial impact of transition and physical risks.

Sustainability Risk Group Responsibilities

- Refine models used for measuring transition risks from climate change; measuring physical risks from climate change for corporations; and for assessing sovereign alignment on decarbonisation, based on various commitments.
- Maintain the Sustainability Optimiser framework that 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.
- Run climate risk stress tests to measure the exposure of portfolios to various climate change scenarios, as outlined by the Intergovernmental Panel on Climate Change (IPCC).

Climate stress tests are run with the support of 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. We can apply a shadow carbon price based on emissions to calculate the impact on the issuer's ability to meet debt obligations. The methodology uses climate pathways, based on data published by the IPCC linking potential future carbon prices to temperature rise.



Engagements

Western Asset explores a wide range of investment opportunities, encompassing many private as well as public issuers. The dialogue between its research analysts and issuers' managements is a key component in its evaluation of these opportunities.

Engagement with management allows Western Asset'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, the Firm's research analysts serve to increase awareness of the importance of ESG considerations through their conversations with management.

As part of our engagement efforts on climate change, Western Asset has been a supporter of TCFD and TPI since 2019. Western Asset is a member of the 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. As part of these collaborative initiatives, Western Asset continues to identify and analyse climate-related risks and opportunities within the fixed-income investment universe, and to engage as appropriate to help issuers set decarbonisation targets where none have been set.

The themes around climate change that Western Asset seeks to engage upon include, but are not limited to:

- Climate Risk and Environmental Management
 - Understanding an issuer's strategy for and commitment to managing climate and environmental risks within the value chain, including regulatory and reputation risks.
 - Encouraging disclosure of relevant exposures and policies to address these risks such as emissions reduction targets.
- Transparency in Reporting
 - Elevating the consistency and quality of reporting exposures to both financial and non-financial risks material to the issuer and sector
 - Increasing general awareness of the relevant ESG issuers and importance to investors
- Governance and Corporate Management
 - Evaluating quality of leadership, ownership and corporate structure, and capital management
 - Communicating governance concerns to issuer management and pushing for bondholder-favorable business practices

Pillar 4: Metrics and Targets

As An Investment Manager

Western Asset has developed numerous tools for climate risk assessment and reporting in relation to client portfolio management, and we can, therefore, report on a range of TCFD metrics. As a fixed-income manager, we find that the Weighted Average Carbon Intensity (WACI) metric is particularly relevant for our client portfolios, which are invested in a broad range of fixed income securities, including sovereigns and credit issuers. Other TCFD metrics are based on enterprise value including cash (EVIC) or market capitalisation, which are equity based constructs, and are therefore less relevant for the sovereign issuers, as well as municipals and securitised fixed-income securities, held in fixed-income portfolios. Additionally, while we have reported on Scope 3 emissions below in relation to client portfolios, we note that there is a lack of data availability across various sectors in fixed-income markets. Data for Scope 3 emissions varies widely across sectors and companies, and is often based on estimates when published by third party data providers, including MSCI, whose data is relied upon below.

The tables on pages 14 and 15 provide relevant TCFD metrics in relation to the client portfolios managed by Western Asset:

Sector	Category	Metric		UK Managed		UK Managed ESG Portfolios Only	
				Result	Coverage	Result	Coverage
Credit	1. GHG Emissions	1.1 Scope 1 - Direct emissions from company-owned and controlled resources (tCO ₂ e)	Portfolio	637,623	78%	427,626	80%
			Benchmark	747,641	64%	539,383	68%
		1.2 Scope 2 - Indirect emissions from the generation of purchased energy, from a utility provider (electricity, steam, heating, cooling) (tCO ₂ e)	Portfolio	108,496	78%	73,723	80%
			Benchmark	135,188	64%	96,636	68%
	1.3 Scope 3 - Indirect Emissions from value chain (tCO ₂ e)	Portfolio	4,558,362	78%	3,026,080	80%	
		Benchmark	4,927,260	64%	3,491,352	68%	
	1.4 Total Aggregate GHG emissions of the company based on reported or estimates Scopes 1, 2, and 3 (tCO ₂ e)	Portfolio	5,272,337	78%	3,500,872	80%	
		Benchmark	5,804,766	64%	4,122,209	68%	
	2. Carbon Footprint	2.1 Carbon Footprint in (tCO ₂ e/MM invested) Scopes 1 and 2	Portfolio	58	78%	56	80%
			Benchmark	64	64%	66	68%
2.2 Carbon Footprint in (tCO ₂ e/MM invested) Scopes 1, 2, and 3		Portfolio	412	78%	395	80%	
		Benchmark	421	64%	425	68%	
3. Weighted Average Carbon Intensity	3.1 Weighted Average Carbon Intensity of investee companies (tCO ₂ e/MM Revenue) Scopes 1 and 2	Portfolio	129	100%	128	100%	
		Benchmark	186	97%	201	97%	
	3.2 Weighted Average Carbon Intensity of investee companies (tCO ₂ e/MM Revenue) Scopes 1, 2, and 3	Portfolio	1,210	90%	1,171	92%	
		Benchmark	1,379	85%	1,368	86%	
Sovereign	Weighted Average Carbon Intensity (tons of CO ₂ e per MM GDP) Scopes 1, 2, and 3	Portfolio	104	100%	84	100%	
		Benchmark	94	100%	77	100%	

Source: Western Asset, MSCI

Sector	Category	Metric		Western Asset		Western Asset ESG Portfolios Only	
				Result	Coverage	Result	Coverage
Credit	1. GHG Emissions	1.1 Scope 1 - Direct emissions from company-owned and controlled resources (tCO2e)	Portfolio	8,791,983	68%	2,445,885	70%
			Benchmark	6,235,330	68%	2,169,326	51%
		1.2 Scope 2 - Indirect emissions from the generation of purchased energy, from a utility provider (electricity, steam, heating, cooling) (tCO2e)	Portfolio	1,592,889	68%	434,404	70%
			Benchmark	1,071,065	68%	393,020	51%
	1.3 Scope 3 - Indirect Emissions from value chain (tCO2e)	Portfolio	66,706,788	68%	16,353,477	70%	
		Benchmark	41,324,364	68%	13,552,016	51%	
	1.4 Total Aggregate GHG emissions of the company based on reported or estimates Scopes 1, 2, and 3 (tCO2e)	Portfolio	76,478,652	68%	19,088,750	70%	
		Benchmark	48,437,335	68%	16,055,972	51%	
	2. Carbon Footprint	2.1 Carbon Footprint in (tCO2e/MM invested) Scopes 1 and 2	Portfolio	67	68%	70	70%
			Benchmark	65	68%	68	51%
		2.2 Carbon Footprint in (tCO2e/MM invested) Scopes 1, 2, and 3	Portfolio	494	68%	464	70%
			Benchmark	429	68%	427	51%
3. Weighted Average Carbon Intensity	3.1 Weighted Average Carbon Intensity of investee companies (tCO2e/MM Revenue) Scopes 1 and 2	Portfolio	193	98%	180	100%	
		Benchmark	261	89%	222	74%	
	3.2 Weighted Average Carbon Intensity of investee companies (tCO2e/MM Revenue) Scopes 1, 2, and 3	Portfolio	1,386	79%	1,296	80%	
		Benchmark	1,373	81%	1,389	62%	
Sovereign	Weighted Average Carbon Intensity Sovereigns	Portfolio	75	100%	67	100%	
		Benchmark	68	100%	83	100%	

Source: Western Asset, MSCI

Certain metrics are higher for Western Asset ESG Portfolios Only. Western Asset's ESG Portfolios represent client mandates with a range of SRI exclusions or sustainable guidelines, where only a certain portion of mandates also incorporate guidelines on decarbonisation or alignment with UN SDGs. The larger proportion of clients' ESG mandates maintain SRI exclusions, which may not always be linked to climate/environmental objectives.

With respect to the Climate VaR (CVaR), another required TCFD metric, we note that it is only applicable for corporate issuers, and excludes sovereigns, municipals and securitised fixed-income securities. As a result, for the fixed-income portfolios managed by Western Asset, which contain many such securities, we do not believe that this metric provides relevant and actionable information for management of portfolios. We, therefore, do not utilise CVaR as a formal part of Western Asset's portfolio construction assessment process.

Nevertheless, below we demonstrate CVaR metrics for a sample of investment strategies. Specifically, based on MSCI's CVaR model and methodology, which is a weighted aggregation of each securities' CVaR, we provide information for the FTGF Western Asset Global Core Plus Bond Fund which has decarbonisation guidelines of 20% WACI reduction vs. the benchmark and the FTGF Western Asset Global Credit Fund without such decarbonisation requirements.

Aggregated Climate VaR		FTGF Western Asset Global Core Plus Bond Fund	FTGF Western Asset Global Credit Fund
Orderly	Under Orderly Average, 2° Celsius	-0.1%	-0.7%
	Under Orderly Average, 1.5° Celsius	-1.5%	-2.9%
Disorderly	Under Disorderly Average, 2° Celsius	-0.5%	-1.6%
	Under Disorderly Average, 1.5° Celsius	-2.2%	-6.7%
Hot House World (HHW) transition scenarios	Under HHW Average, 3° Celsius	-0.1%	-0.7%

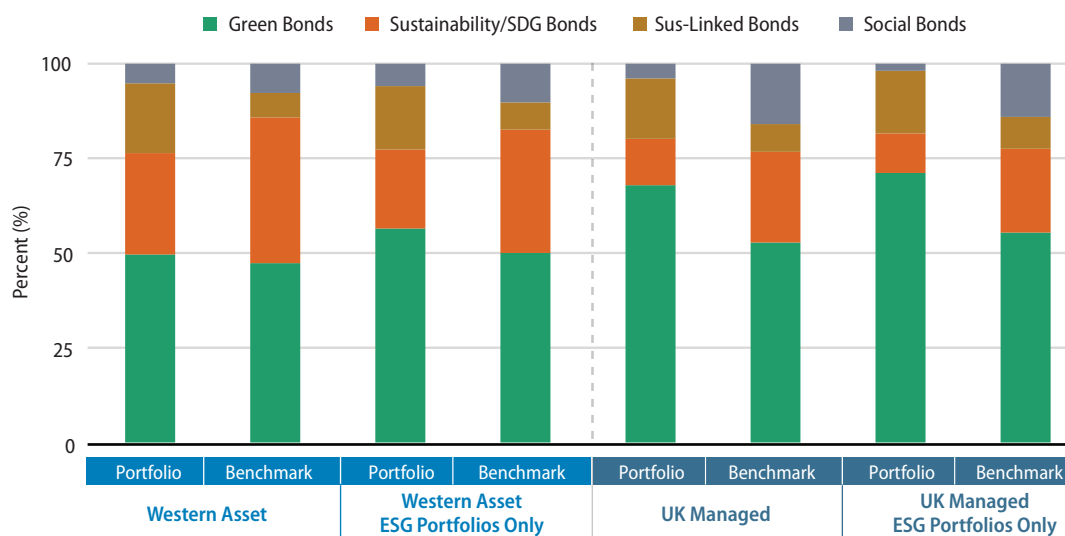
Source: Western Asset, MSCI

Furthermore, we note that the fixed-income universe includes labelled bonds, many of which have explicit climate-related objectives. Western Asset's Investment Management Team applies the same rigorous fundamental analysis when investing in a labelled bonds as in those without. For example, as part of the labelled bond analysis, the Investment Management Team seeks to evaluate the implications of any 'greenium'⁵ which may negatively impact returns on clients' portfolios. Where the greenium is material, the Investment Management Team may not invest in a labelled bond as it would not align with other investment objectives of client portfolios. As an illustration, Western Asset notes that firmwide our portfolios own an average of 4% in such labelled bonds, with higher allocations in portfolios with specific guidelines or based on client's objectives.

Labelled Bonds

Definitions	Western Asset		Western Asset ESG Portfolios Only		UK Managed		UK Managed ESG Portfolios Only	
	Portfolio (%)	Benchmark (%)	Portfolio (%)	Benchmark (%)	Portfolio (%)	Benchmark (%)	Portfolio (%)	Benchmark (%)
Green Bonds	2.0	2.1	3.8	2.7	7.8	5.0	8.6	4.8
Sustainability/SDG Bonds	1.1	1.7	1.4	1.7	1.4	2.3	1.3	1.9
Sus-Linked Bonds	0.7	0.3	1.1	0.4	1.8	0.7	2.0	0.7
Social Bonds	0.2	0.3	0.4	0.5	0.5	1.5	0.2	1.2
Total	4.0	4.5	6.7	5.3	11.5	9.4	12.1	8.7

Source: Western Asset, ICMA



Source: Western Asset, ICMA

Company Initiatives

Western Asset recognises that environmental issues are important considerations for all businesses and that sustainable business practices can help support business competitiveness. As a result we are committed to an environmental policy that promotes operational practices to minimise our impact on the environment. Western Asset engages in a number of initiatives to minimise environmental impact including for example: reduction of energy use and water waste wherever possible; participation in local waste recycling efforts that meet all regional ordinances for plastics, glass, paper and compostable waste at all global office locations; encouragement and support of environmentally friendly commuting options for our staff; and management of e-waste per local guidelines.

⁵ Per United Nations Development Programme greenium is a green premium, referring to pricing benefits based on the logic that investors are willing to pay extra or accept lower yields in exchange for sustainable impact.

Each office works with their respective building management, local vendors and suppliers to address environmental impact of Western Asset's business operations. Some recent highlights include:

London

- 100% renewable energy is used in the office building;
- The building is fully BREEAM (Building Research Establishment Environmental Assessment Methodology) certified;
- Confidential waste paper is shredded onsite then used by manufacturers to produce notebooks;
- We institute a paper-light policy, encouraging double-sided printing and the elimination of paper records, where possible;
- Green philosophy and accreditations are considered in the selection process for new suppliers/vendors; and
- We support employee participation in energy efficiency programs, such as WWF Earth Hour.

Melbourne

- The office has 5.27 Star NABERS (National Australian Built Environmental Rating System) Energy weighted average rating; and
- 4.77 Star NABERS Water rated average rating, with 15% reduction in water consumption, 36% waste diverted from landfill and 34% reduction in emissions.

Singapore

- 100% renewable energy is used in the office building; and
- 27% year-on-year reduction in electricity consumption (as of March 2023).

Tokyo

- 100% renewable energy is used in the office building;
- The Tokyo office is a member of the building's Environmental Committee;
- It is the Tokyo office's 11th year participating in "Eco Turn Delivery System," whereby paper is delivered in plastic boxes, which are then collected for reuse; and
- The PET Bottle Caps Project is a collection and donation of OET bottle caps to support Japan Committee Vaccine for the World's Children. Caps are converted to recycled materials and sold, with proceeds going toward vaccines to children in developing countries.

São Paulo

- The office building has achieved the LEED GOLD and PROCEL certificates.

US Offices: New York and Pasadena

- Office lights are on sensors and are off during non-business hours, and all lighting is LED;
- All unwanted IT equipment is sent to e-waste, and majority of the office utilises laptop computers which use less energy;
- Offices provide recycling stations throughout for various materials; and
- The offices utilise cups made from plant-based materials and provide filtered water fountains to minimise use of plastic wherever possible.

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
São Paulo	●	●	●	●	●	●	●	●	●	LEED Gold, Procel
Melbourne	●	●	●	●	●	●	●	●	●	5.1 Star NABERS
Singapore	●	●	●	●	●	●	●	●	●	BCA Green Mark Goldplus
Tokyo	●	●	●	●	●	●	●	●	●	DBJ Green Building Certification (received in October 2022)

- Recycles
- Paperless Initiatives
- Limits Plastic Use
- Uses Recycled Products
- Energy-efficient Electronics
- Reduces Water
- Utilises Local Suppliers
- Uses Renewable Energy
- Carpool/Public Transit

Given the specific TCFD requirements for Western Asset UK, we provide the following GHG emissions information for Western Asset UK's operations for the year ending 31 December 2023.

Western Asset UK London Office CO ₂ Emissions (metric tons CO ₂)	2020	2021	2022	2023
Scope 1 - kW-hr/year	0	0	0	0
Scope 2 - kW-h/year	431,310	372,596	297,207	294,100
Scope 2 (market based) Western Asset UK London office pays for 100% green energy	0	0	0	0
Scope 2 (location based)	43	38	30	30
Total (market)	0	0	0	0
Total (location)	43	38	30	30

Source: Western Asset, SmartestEnergy

Methodology: A calculation of GHG was made using actual energy meter readings. We have applied the GHG Protocol Corporate Accounting and Reporting Standard to calculate our GHG emissions and applied the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2021. The report covers scope 3 emissions related to electricity used in the London Office. Scope 1 does not apply as the company does not own or control any transportation related assets, and scope 3 emissions are not material to the Western Asset UK's operations.



Conclusion

Our primary focus in managing climate-related risks and opportunities is our fiduciary duty towards our clients. Our ESG policy framework has been built around this approach. We continue to look critically at our program and implement enhancements where necessary, as well develop new solutions that will support our clients' investment and environmental goals. We recognise that fixed-income markets continue to be challenged in terms of data availability as well as consistent approach to ESG assessments of certain investment types, however we believe that through engagement and collaboration we can make headway. From a corporate perspective, we will continue to seek opportunities to improve our environmental footprint and limit our impact on the environment, wherever possible.

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