



Strategy Update: US Core and Core Plus

August 10, 2023

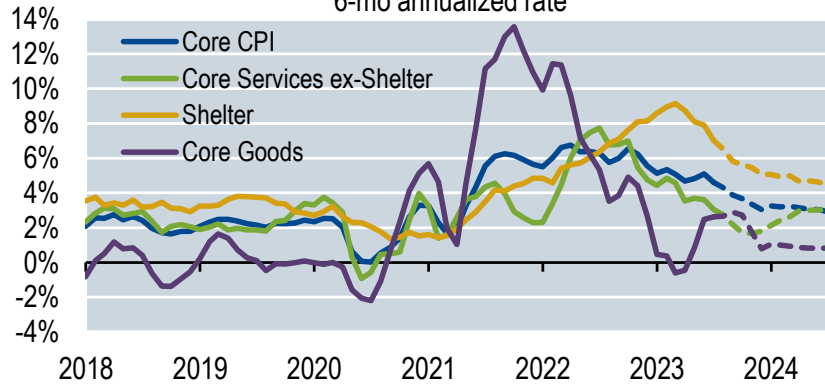
Mark Lindbloom
Portfolio Manager

Travis M. Carr, CFA
Product Specialist

Inflation Has Been Trending Lower

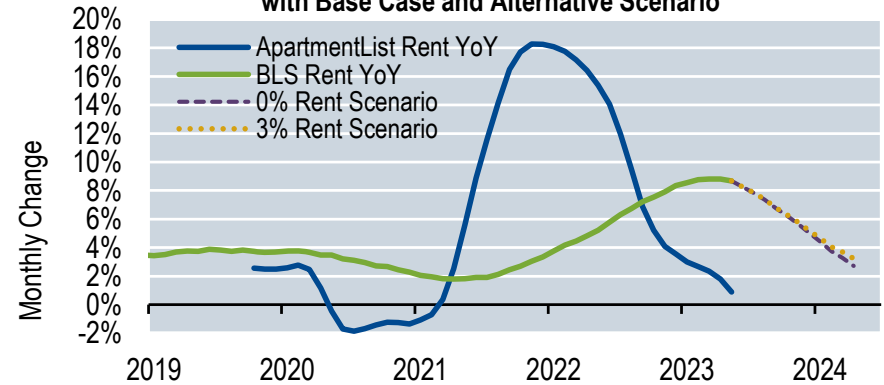
Most measures of inflation have been heading lower and are anticipated to continue on this path.

Core CPI and Component Forecasts
6-mo annualized rate



Source: Bureau of Labor Statistics, Western Asset. As of 30 Jun 23

ApartmentList Data vs BLS Rent Year Over Year with Base Case and Alternative Scenario



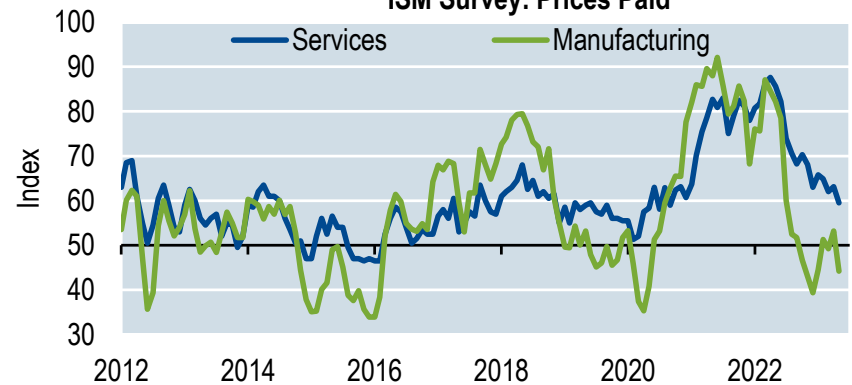
Source: Apartmentlist.com, Western Asset. As of 31 May 23

PPI



Source: Bureau of Labor Statistics, Haver Analytics. As of 31 May 23
Year-over-year percent change. Shading indicates recession.

ISM Survey: Prices Paid

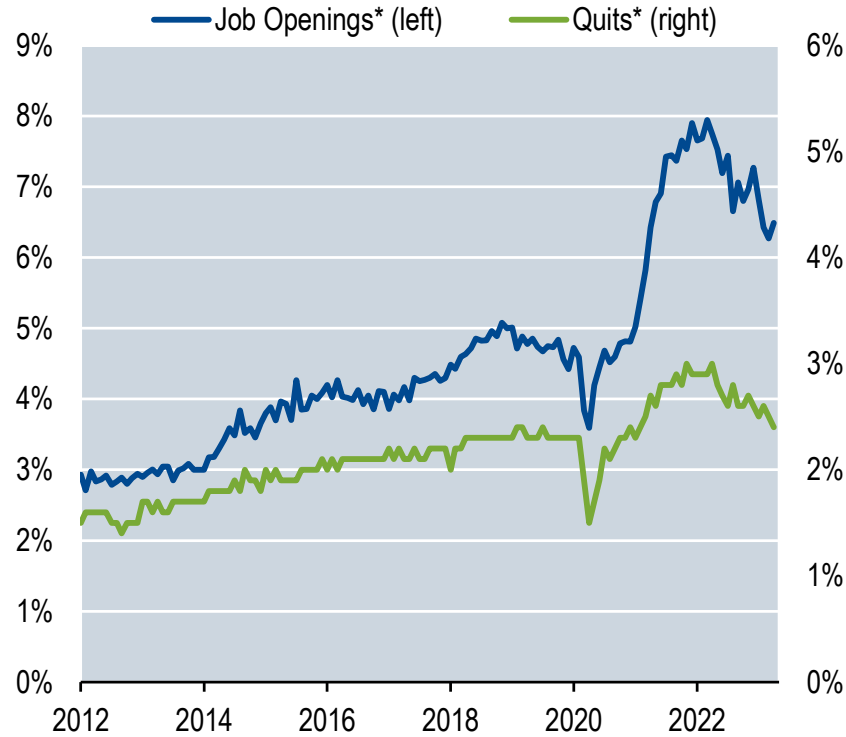


Source: Haver Analytics. As of 31 May 23
>50 Indicates Expansion

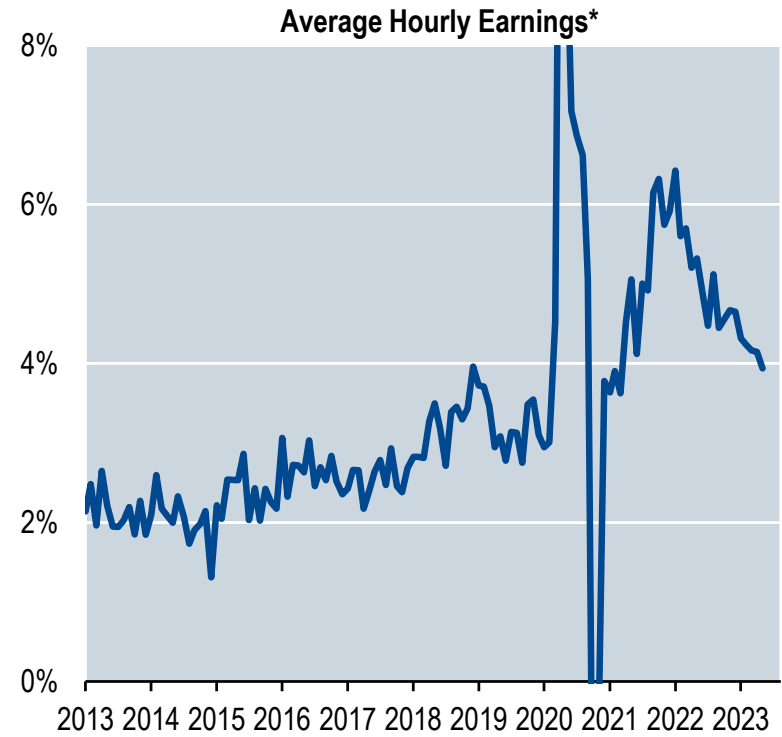


Labor Market Loosening and Wage Growth Moderating

Employment data is showing some signs of cooling with job openings declining and wages moving lower.



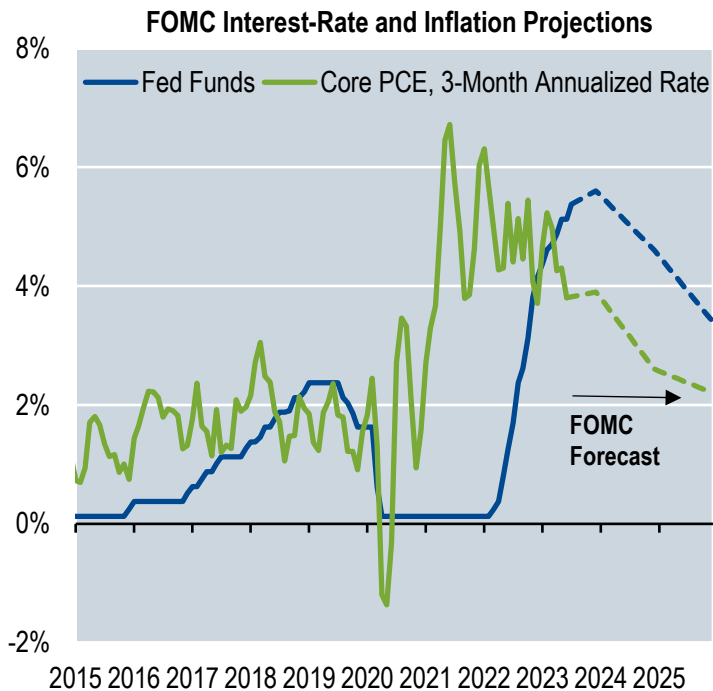
Source: Bureau of Labor Statistics. As of 31 May 23
*Percentage of employment



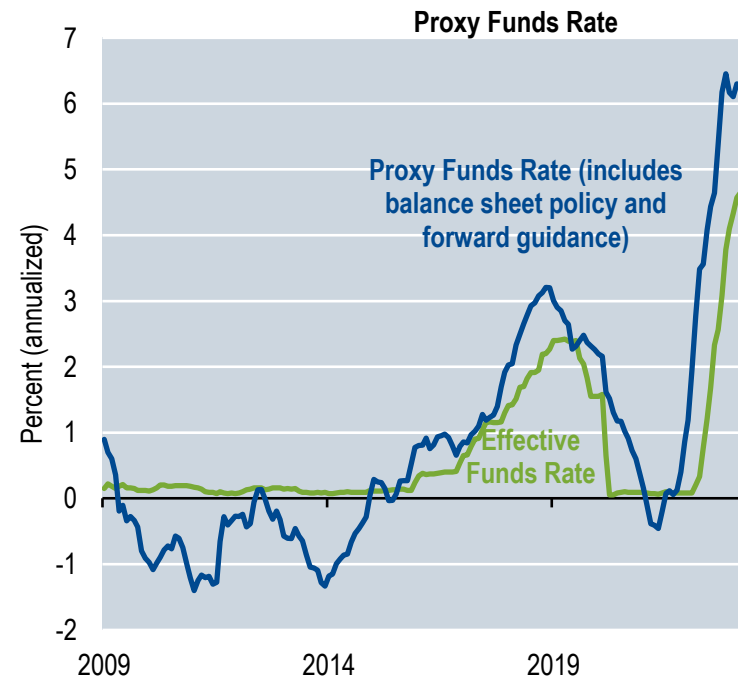
Source: Bureau of Labor Statistics. As of 31 May 23
*6-Month percent change, annual rate

Fed Policy Has Been Restrictive for an Extended Period and Is Tighter Than It Looks

“We have come a long way in policy tightening, and the stance of policy is restrictive ... Having come this far, we can afford to look at the data and the evolving outlook and make careful assessments.”
 – Chair Powell, May 19, 2023



Source: Federal Reserve. As of 31 Jul 23



Source: Federal Reserve, Freddie Mac, The Bond Buyer, Moody's, Choi et al. (2022). As of 31 May 23

Proxy Funds Rates uses public and private borrowing rates and spreads to infer the broader stance of monetary policy. When the Federal Open Market Committee uses additional tools, such as forward guidance or changes in the balance sheet, these policy actions affect financial conditions, which the proxy rate translates into an analogous level of the federal funds rate.

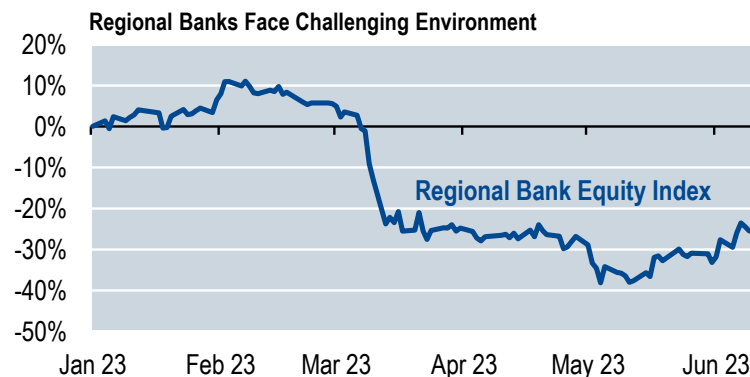


Regional Banking Challenges Have Contributed to Tighter Credit Conditions

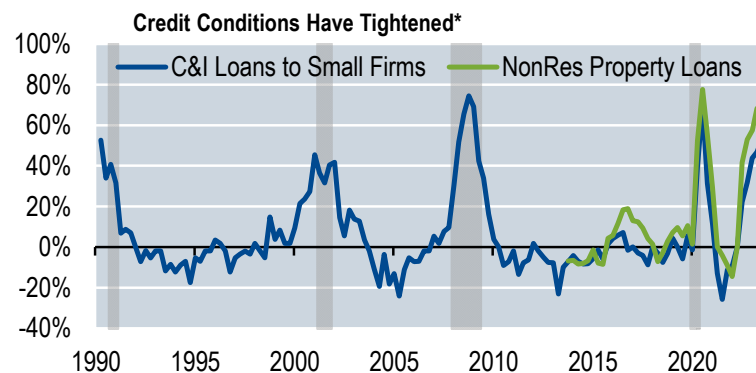
“Developments in the financial sector are contributing to tighter credit conditions and are likely to weigh on economic growth, hiring and inflation. So as a result, our policy rate may not need to rise as much as it otherwise would have to achieve our goals.”

“Our tools can have separate objectives, but their effects are often not entirely independent ... Financial stability affects macroeconomic stability and vice versa.”

– Chair Powell, May 19, 2023

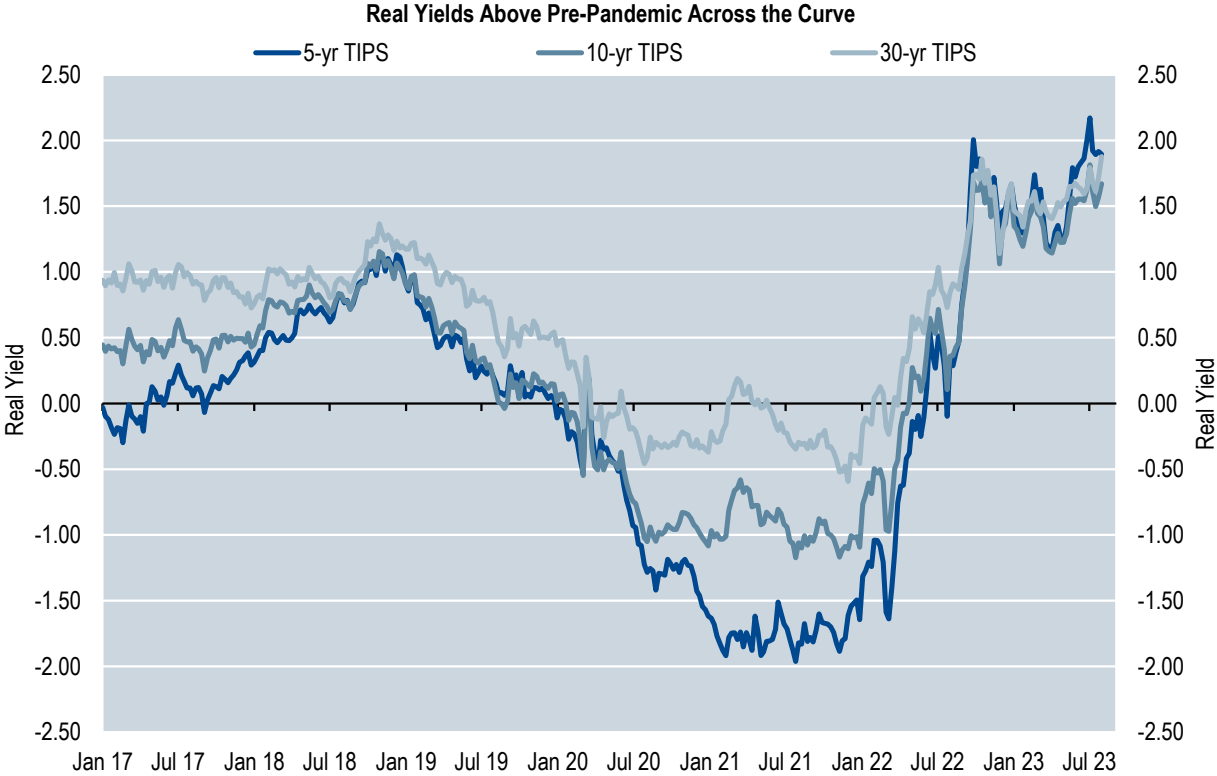


Source: Bloomberg. As of 12 Jun 23



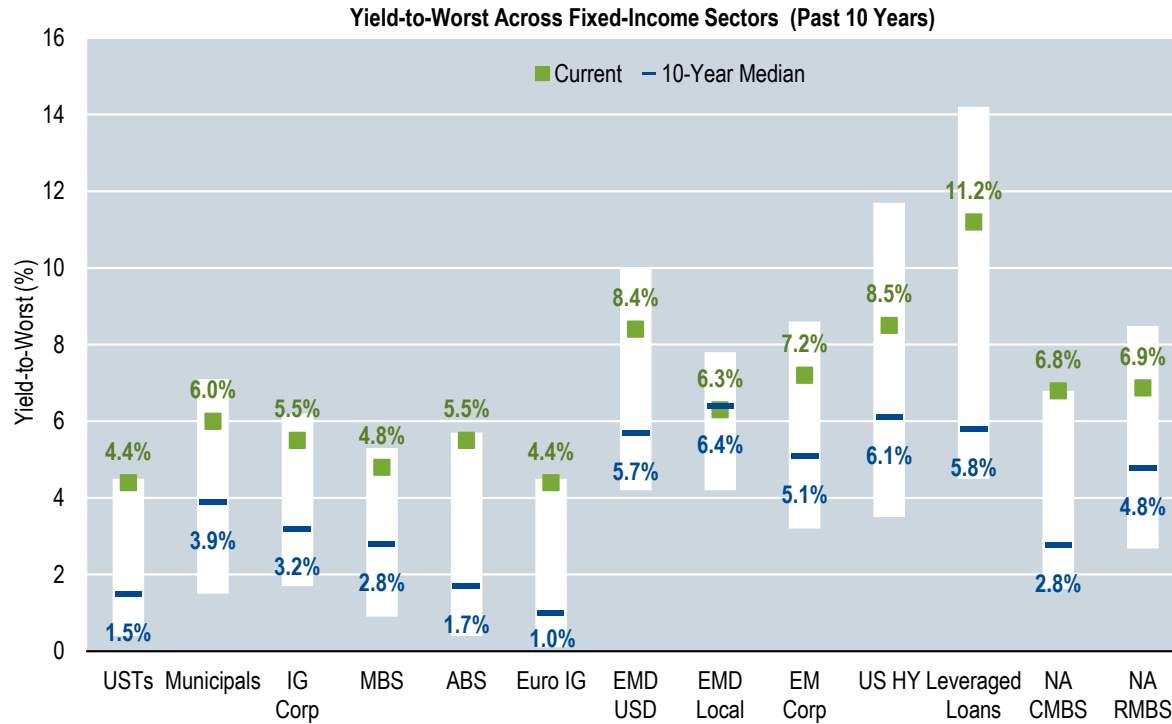
Source: Federal Reserve. As of 31 Jul 23
*Percent of Banks Tightening Standards

Real Yields Above Pre-Pandemic Across the Curve



Source: Bloomberg, Western Asset, weekly
As of 04 Aug 23

Fixed-Income Valuations

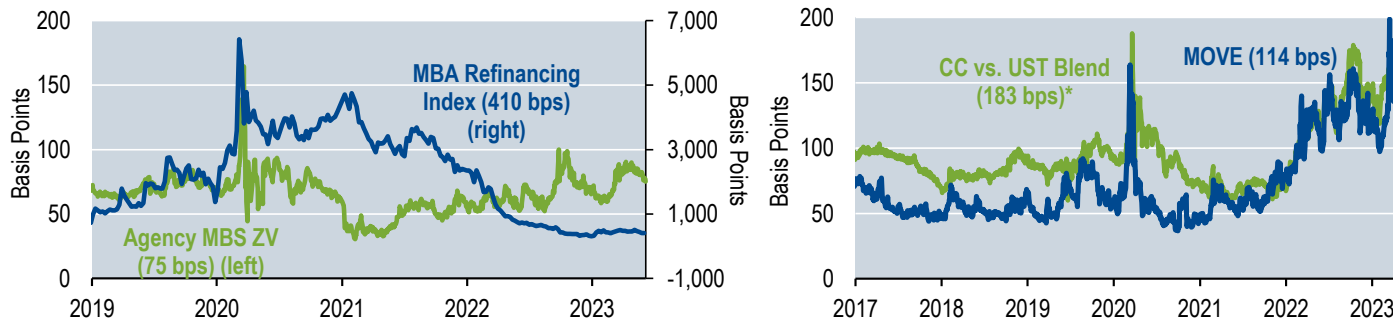
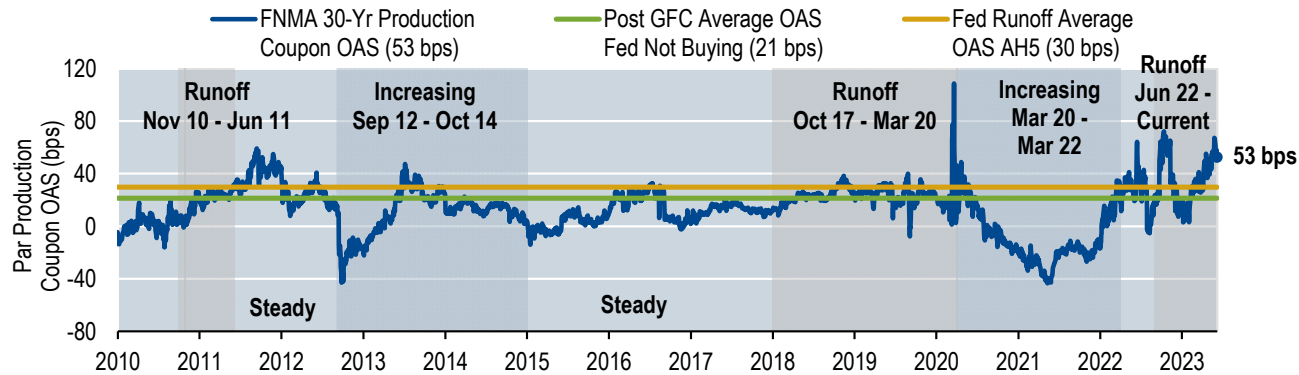


Source: JP Morgan. As of 30 Jun 23

Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for emerging market debt and leveraged loans: EMD (USD): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. Guide to the Markets—US Data are as of 31 Mar 23.

Agency Mortgage-Backed Securities: Fundamentals and Valuations Have Improved

- Mortgage spreads have widened significantly as Fed and bank support diminished
- Agency MBS spreads have widened with elevated volatility and yield curve inversion
- Prepayment risk remains muted as mortgage borrowers have little refinancing incentive



Source: Bloomberg, MS Research, Western Asset. As of 06 Jun 23
 *As of 30 May 23

Mortgage Credit Offers Attractive Relative Value

- While real estate prices are expected to cool from the record increases, market spreads are elevated with increased risk premiums
- During the housing boom of Covid, lending stayed conservative and single family markets remain well supported by long-term fundamentals
- Commercial real estate sector has largely been able to pass on the cost of higher interest rates in rents at hotels, apartments, and industrial properties, while the office sector faces continued headwinds from Covid

Spreads	Representative RMBS CRT Below IG*	BAML RMBS Legacy Below IG	Bloomberg Non-Agency CMBS BBB	Bloomberg US IG Corporate	Bloomberg US High Yield
31 Jan 20	178	123	250	102	390
30 Jun 23	387	233	996	123	392
Difference Since 31 Jan 20	210	110	746	21	2
31 Dec 18	246	127	371	153	526
30 Jun 23	387	233	996	123	392
Difference Since 31 Dec 18	142	107	625	-30	-134

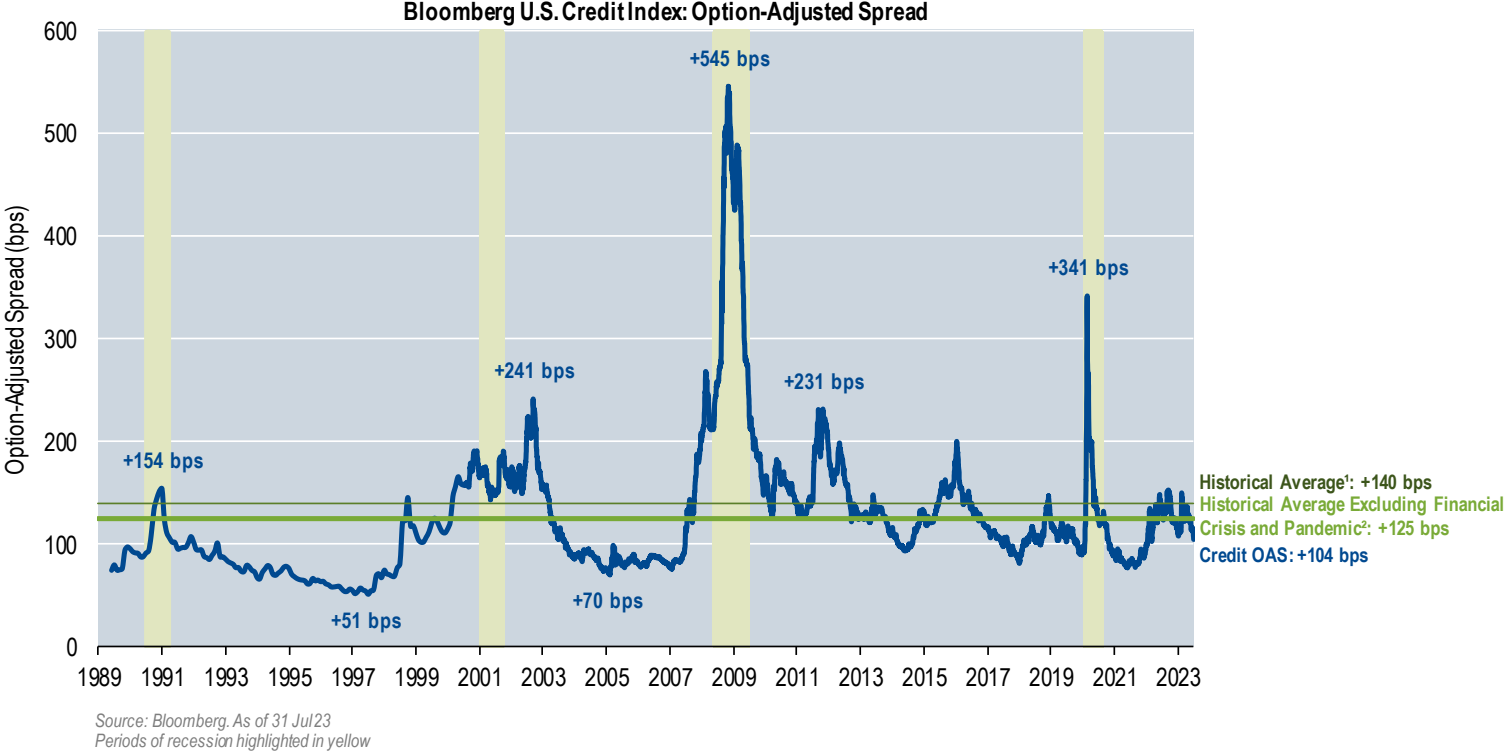
Source: Bloomberg, Bank of America, Western Asset. As of 30 Jun 23

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situations or needs of investors.

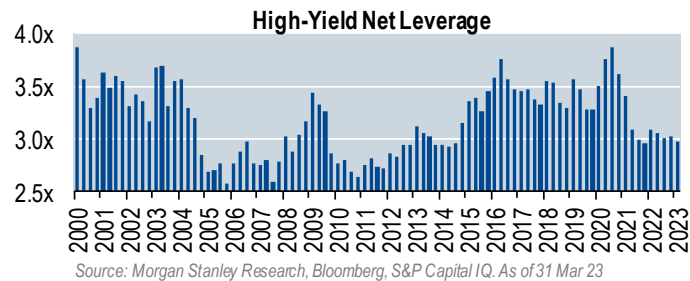
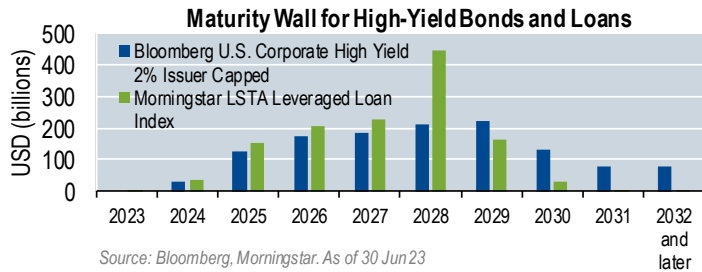
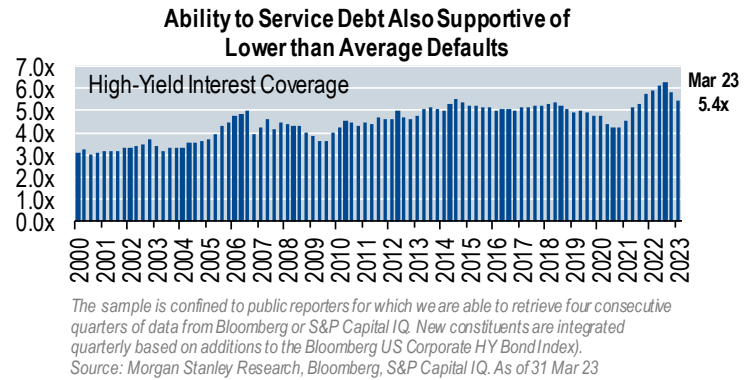
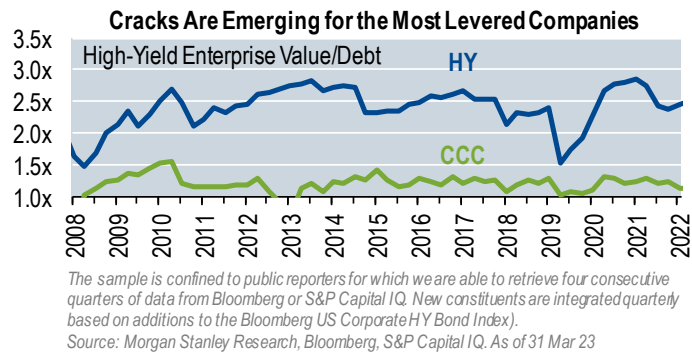
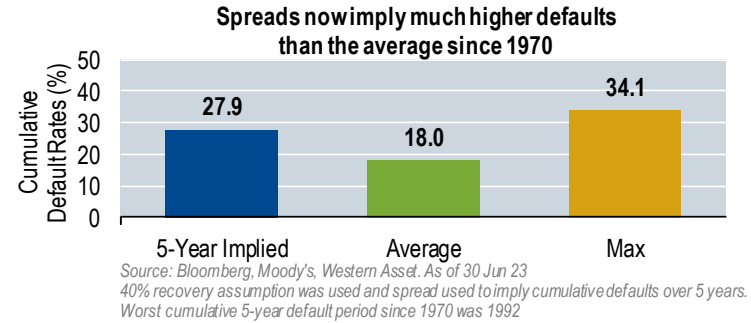
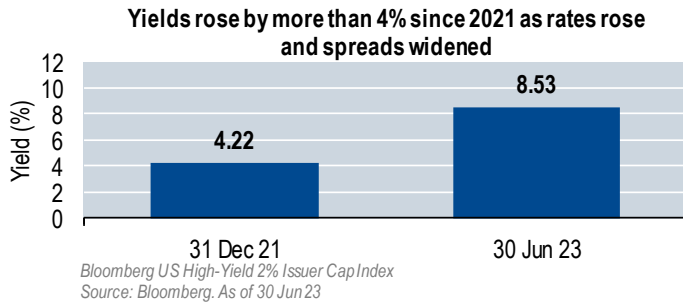
*Representative RMBS CRT Below IG; On-the-run speed adjust spread for below investment-grade rated CRT cohort

Past performance is not a reliable indicator of future results.

Valuation: US Credit “Fair” at +104 OAS



High-Yield Credit: Valuations Are Compelling

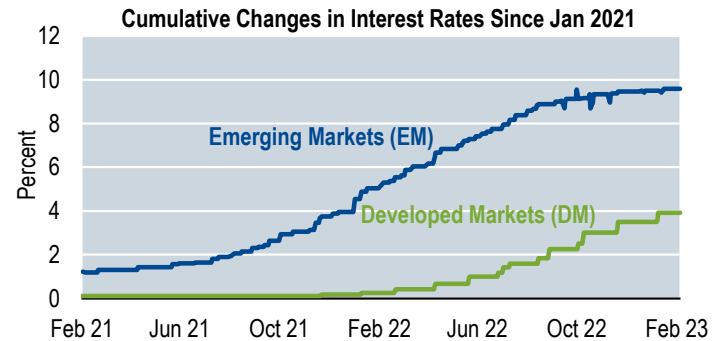


Emerging Markets: The USD and Commodities Are Key Drivers

- EM central banks are closer to the end of the tightening cycle relative to the developed world
- USD relative strength and commodity prices are both inputs into EM economic conditions and returns.
- A Fed pause combined with China reopening bodes well for EM

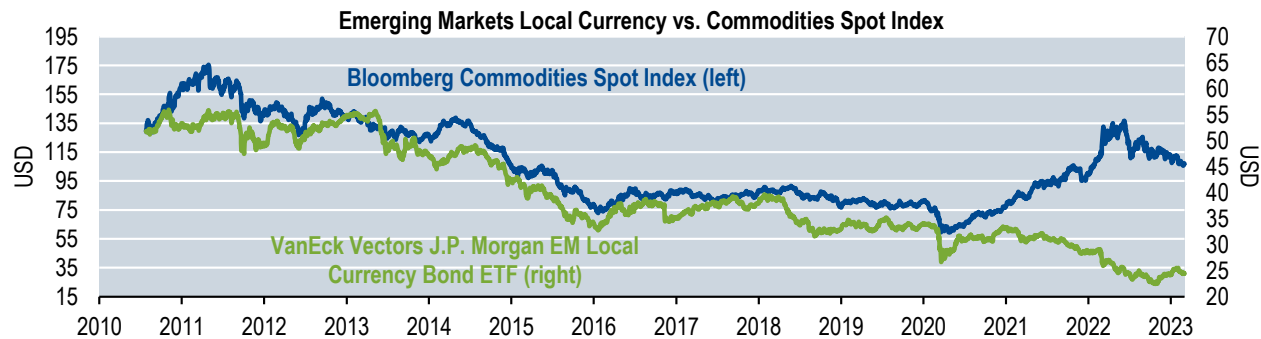


Source: Bloomberg. As of 24 Feb 23



Source: Bloomberg. As of 01 Mar 23

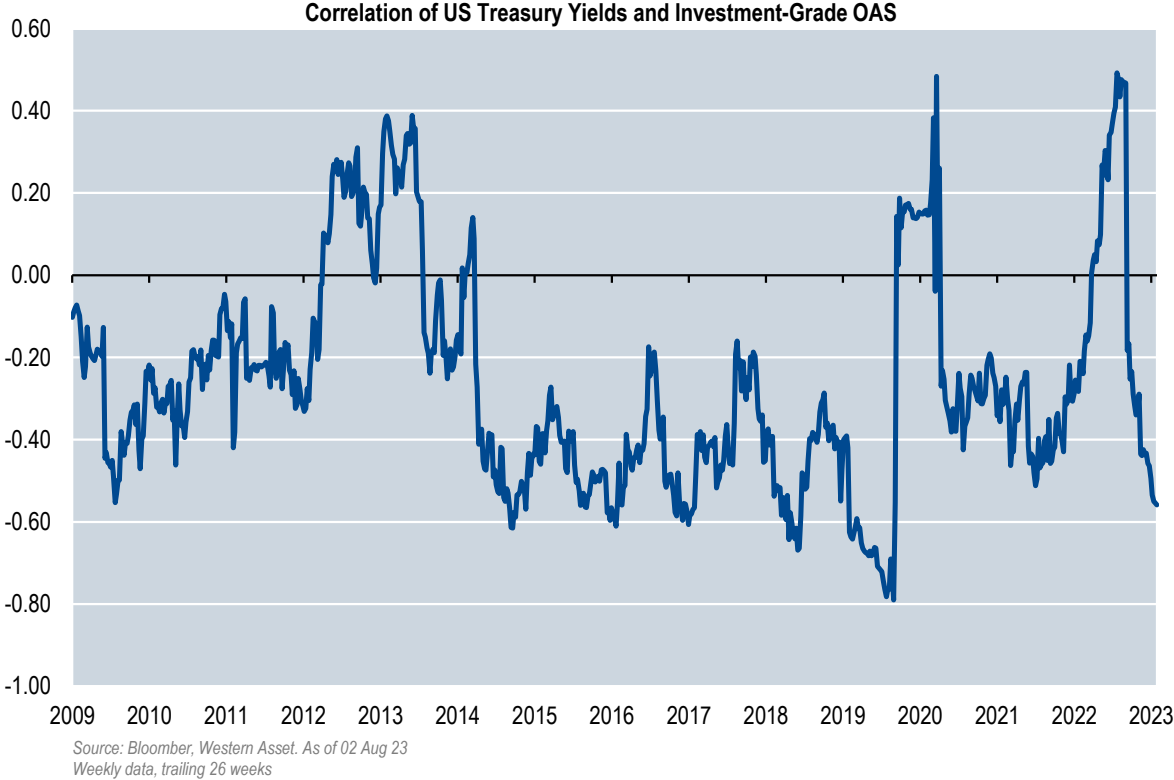
Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK



Source: Bloomberg. As of 02 Mar 23

Growth Risks Contribute to Negative Correlation Between Rates and Credit

Fundamental reasons are demand for safe assets, reassessment of growth and inflation expectations, and Fed response.



Sector Exposure

Western Asset Representative Core Plus Portfolio vs. Bloomberg US Aggregate USD Unhedged Index

Key Rate Duration (yrs)



Source: Franklin Templeton, Western Asset

Yield to worst (YTW) is based on a portfolio's current holdings on one specific day, is gross of all fund expenses, and calculated based on assumption that prepayment occurs if the bond has call or put provisions and the issuer can offer a lower coupon rate based on current market rates. If market rates are higher than the current yield of a bond, the YTW calculation will assume no prepayments are made, and YTW will equal the yield to maturity. The YTW will be the lowest of yield to maturity or yield to call (if the bond has prepayment provisions). The YTW is the market-weighted average of the YTWs of all the bonds in the portfolio.

Key Rate Duration (KRD) is the option-adjusted price sensitivity to the changes in interest rates located close to the given key interest rate tenors (e.g., 6M, 2Y, 5Y, 10Y, 20Y, 30Y).

Sectors subject to change. Data may not sum to 100% due to rounding.

Past performance is no guarantee of future results.

Questions & Answers



Thank you.

Performance Disclosure

December 31, 2022

US Core Composite

Composite Inception Date: 04/1/1974 | Composite Creation Date: 01/1/2000

	No. of Accts	Gross Total Return	Net Total Return	Benchmark Total Return	Gross Total 3-Yr St Dev	Benchmark Total 3-Yr St Dev	Internal Dispersion	Mkt. Value USD Mil	Percentage of Firm Assets	Firm Assets USD Mil
2013	17	-1.45%	-1.74%	-2.02%	2.72%	2.71%	0.45%	7,138	1.58%	451,632
2014	18	7.39%	7.07%	5.97%	2.81%	2.63%	0.62%	8,346	1.79%	466,036
2015	18	1.21%	0.91%	0.55%	2.97%	2.88%	0.64%	8,719	2.01%	433,747
2016	21	4.46%	4.14%	2.65%	3.11%	2.98%	0.28%	14,119	3.37%	419,207
2017	21	5.51%	5.19%	3.54%	2.89%	2.78%	0.42%	16,954	3.89%	436,309
2018	19	-0.29%	-0.59%	0.01%	3.02%	2.84%	0.19%	16,107	3.80%	424,136
2019	20	11.06%	10.73%	8.72%	2.89%	2.87%	0.30%	22,976	5.05%	455,276
2020	18	9.58%	9.26%	7.51%	4.15%	3.36%	0.25%	28,627	5.97%	479,810
2021	21	-1.35%	-1.65%	-1.54%	4.26%	3.35%	0.12%	31,224	6.39%	488,490
2022	20	-16.31%	-16.57%	-13.01%	7.46%	5.77%	0.41%	21,628	5.52%	391,756

Description: The Western Asset US Core strategy is a US broad market strategy that aims to maximize total return and add value through duration and curve positioning, sector allocation, and security selection, while approximating benchmark risk. The strategy invests in a diversified portfolio using all major investment-grade fixed-income sectors with a bias toward non-Treasuries, especially corporate, mortgage-backed and asset-backed securities. The portfolios may have the ability to use futures and options.

Benchmark Description: The current benchmark is the Bloomberg US Aggregate USD Unhedged Index.

Base Currency: USD | **Composite Minimum:** No minimum asset size requirement as of 1/1/2020 (previously USD25 million).

Current Fee Schedule: The investment management fee schedule for the separate account is .30 of 1% on the first USD100 million, .20 of 1% on amounts over USD100 million. The investment management fee schedule for the Western Asset US Core Bond L.L.C., which is a member of the composite, is .30 of 1%. The total expense ratio as of December 31, 2021 for the Western Asset Core Bond L.L.C. was .34 of 1%.

Effective 1 January 2020, the US Core Composite has been redefined to exclude accounts with significant restrictions on the major sector of the broad fixed income market, duration flexibility or credit quality.

Western Asset claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Western Asset has been independently verified for the periods from January 1, 1993 to December 31, 2022.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The US Core Composite has been examined for the period of January 1, 1993 to December 31, 2014 and January 1, 2019 to December 31, 2022. The verification and performance examination reports are available upon request.

Performance Disclosure

December 31, 2022

US Core Plus Composite

Composite Inception Date: 02/1/1993 | Composite Creation Date: 01/1/1994

	No. of Accts	Gross Total Return	Net Total Return	Benchmark Total Return	Gross Total 3-Yr St Dev	Benchmark Total 3-Yr St Dev	Internal Dispersion	Mkt. Value USD Mil	Percentage of Firm Assets	Firm Assets USD Mil
2013	105	-0.79%	-1.09%	-2.02%	2.92%	2.71%	0.31%	46,789	10.36%	451,632
2014	92	7.70%	7.38%	5.97%	2.98%	2.63%	0.59%	50,341	10.80%	466,036
2015	91	1.19%	0.89%	0.55%	3.19%	2.88%	0.60%	50,759	11.70%	433,747
2016	94	5.33%	5.02%	2.65%	3.31%	2.98%	0.45%	56,003	13.36%	419,207
2017	94	6.77%	6.45%	3.54%	3.11%	2.78%	0.69%	61,753	14.15%	436,309
2018	98	-0.97%	-1.26%	0.01%	3.34%	2.84%	0.35%	63,414	14.95%	424,136
2019	99	12.51%	12.18%	8.72%	3.26%	2.87%	0.66%	75,291	16.54%	455,276
2020	104	9.90%	9.57%	7.51%	5.23%	3.36%	0.69%	91,333	19.04%	479,810
2021	97	-1.32%	-1.61%	-1.54%	5.26%	3.35%	0.26%	91,679	18.77%	488,490
2022	95	-17.49%	-17.74%	-13.01%	8.43%	5.77%	1.13%	63,618	16.24%	391,756

Description: The Western Asset US Core Plus strategy is a US broad market strategy that aims to maximize total return and add value through duration and curve positioning, sector, country and currency allocation, and security selection, while approximating benchmark risk. The strategy invests in a diversified portfolio using all major fixed-income sectors with a bias toward non-Treasuries. The strategy allows for opportunistic investments in high-yield, emerging markets and non-dollar securities. The portfolios may have the ability to use futures and options.

Benchmark Description: The current benchmark is the Bloomberg US Aggregate USD Unhedged Index.

Base Currency: USD | **Composite Minimum:** No minimum asset size requirement as of 1/1/2020 (previously USD25 million).

Current Fee Schedule: The investment management fee schedule for the separate account is .30 of 1% on the first USD100 million, .20 of 1% on amounts over USD100 million. The investment management fee schedule for the Western Asset US Core Plus, LLC and the Western Asset US ESG Core Plus Fund L.L.C, which are members of the composite, is .30 of 1%. The total expense ratio as of December 31, 2021 for the Western Asset US Core Plus, LLC was .36 of 1% and for the Western Asset US ESG Core Plus Fund L.L.C was .55 of 1%.

Effective 1 January 2020, the US Core Plus Composite has been redefined to broaden the inclusion of accounts with below investment grade and/or non-US dollar exposure either through unhedged, non-US dollar securities or outright currency transactions.

Western Asset claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Western Asset has been independently verified for the periods from January 1, 1993 to December 31, 2022.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The US Core Plus Composite has been examined for the period of January 1, 1993 to December 31, 2014 and January 1, 2019 to December 31, 2022. The verification and performance examination reports are available upon request.



Performance Disclosure

December 31, 2022

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Gross-of-fees returns are presented before management fees, but after all trading expenses. Net-of-fees results are calculated using a model approach whereby the current highest tier of the appropriate strategy's fee schedule is used. Effective January 1, 2020, for annual periods where the actual account weighted fees are higher than the composite model fees, the actual account weighted fees will be used for net-of-fees composite return calculations. Net-of-fees composite return calculations using actual account weighted fees may include fund returns and performance based fee returns that incur higher fees than those applied to separately managed accounts. The portfolios in the Composite are all actual, fee-paying and performance fee-paying, fully discretionary accounts managed by the Firm for at least one full month. Investment results shown are for taxable and tax-exempt accounts and include the reinvestment of all earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

Composite returns are measured against a benchmark, when applicable. The benchmark is unmanaged and provided to represent the investment environment in existence during the time periods shown. For comparison purposes, its performance has been linked in the same manner as

the Composite. The benchmark presented was obtained from third party sources deemed reliable but not guaranteed for accuracy or completeness. Benchmark returns and benchmark three-year annualized ex-post standard deviation are not covered by the report of independent verifiers.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the Composite for the entire year. Periods with five or fewer accounts are not statistically representative and are not presented. The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Past investment results are not indicative of future investment results. Information contained herein is believed to be accurate, but cannot be guaranteed. Employees and/or clients of Western Asset may have a position in the securities mentioned.

Western Asset's list of composite descriptions, limited distribution pooled fund descriptions, and broad distribution pooled funds are available upon request. Please contact Derek Fan at 626- 844-9465 or derek.fan@westernasset.com. All returns for strategies with inception prior to January 1, 2013 are available upon request.

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The representative portfolio is an account in the composite we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.