WESTERN ASSET

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Unconstrained Investing: Unleash Your Bonds...

Executive Summary

As interest rates begin to normalize, many investors are reexamining their fixed-income allocations. Choices include standing firm, rotating out of fixed-income or moving to an unconstrained strategy. In this paper, we examine what an unconstrained bond strategy is and why it may be an appropriate choice. We also explore a variety of unconstrained strategies with differing risk and return characteristics.

What Is Unconstrained Investing?

From time to time, ideas arise in the financial markets that challenge conventional investment approaches. Today that idea is unconstrained investing. Typically we think of the hedge fund world as being the domain for this type of approach: a pure alpha strategy that adheres to no benchmark and is intended only to showcase the talents of the manager.

Increasingly, we are seeing long-only managers introduce unconstrained strategies. The intent is not necessarily to produce "pure alpha," but more likely to avoid the pitfalls of traditional market benchmarks. In the fixed-income sector, the Barclays Aggregate Index—the most common benchmark in the US—is solely focused on large, liquid, fixed-rate investment-grade issues that offer historically low yields and longer than average duration at a time when interest rates have seemingly started the process of normalization.

If we consider how we traditionally utilize fixed-income—as an offset to the equity risk that tends to dominate investors' portfolios and as a source of income that seeks to stabilize overall portfolio returns—then we understand that exiting fixed-income entirely could substantially increase portfolio risk. Unconstrained investing allows investors to seek the desirable characteristics of fixed-income—income, diversification and risk reduction—and avoid the undesirable—longer duration and high correlation to government rates. In its most basic form, unconstrained investing allows an investor to allocate capital based on an independent assessment of value rather than the issuance patterns of the major constituents of the indices.

This approach is not designed to produce the pure alpha of a hedge fund. Rather, it is designed to target and calibrate selective beta exposures and to complement these returns with incremental alpha.

Why Is Unconstrained Investing an Issue/Opportunity Now?

In an era of financial repression and manipulated government bond rates (particularly in the developed markets), traditional market benchmarks currently offer low yields and long duration. This combination of characteristics suggests to investors that fixed-income may be less useful to them than in "normal" times. That is generally true if one adheres to the conventions of the Barclays Aggregate Index. This index excludes a substantial portion of the investable fixed-income universe. The excluded opportunities are as follows: floating-rate, inflation-linked, non-US, private and below-investment-grade securities. These represent roughly 65% of the investable fixed-income universe.

While some might consider an alternative index rather than unconstrained, we believe that all fixed-income indices have limitations. They are generally market-weighted, which results in allocations based on issuance patterns rather than any sense of value. This facilitates liquidity, but tends to reward the profligate and can, at times, punish investors.

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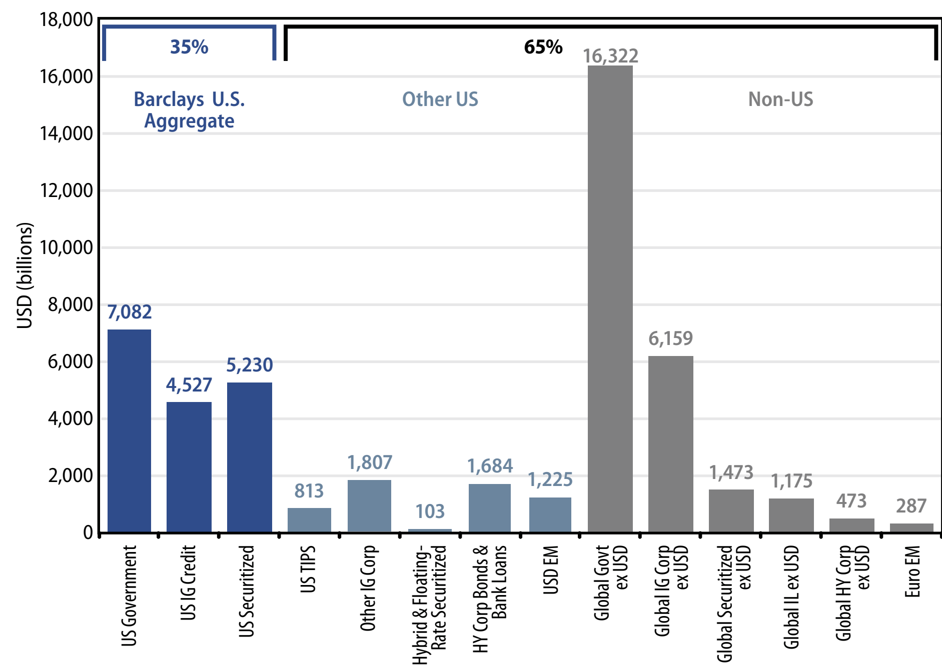
Exhibit 1
Market Opportunities Include More than the Aggregate



Source: Barclays. As of 30 Jun 13

If one were to independently construct a fixed-income portfolio, there would be many opportunities available providing several (but not all) of the traditional benefits of fixed-income. This would require broader guidelines and a new paradigm for evaluating manager performance. To fully access these opportunities an investor could focus on broadening guidelines or could go as far as eliminating them.

At Western Asset, we have offered unconstrained strategies throughout our history. Until 2004, these strategies tended to be small, specialized programs that were customized for each investor. Since 2004 we have seen an increased focus on this type of approach by institutional investors. The interest stalled somewhat in the post-crisis period as central bank intervention drove rates to new lows and the nascent economic normalization caused spreads to contract. These moves led traditional fixed-income strategies to perform extremely well.

Looking forward, it is difficult to see traditional approaches producing anywhere near their long-term average returns in the coming years. As of June 28, 2013 the yield of the Barclays Aggregate Index was 2.35% and the duration was 5.49. With yield being the most important factor contributing to the return of a bond, and with investors anticipating higher yields in the future, expected returns for the Barclays Aggregate tend to range from modestly negative to an upper target of 2.35%.

That said, there are many other opportunities in the bond market that can assist investors in approximating traditional return expectations, albeit with somewhat different risk characteristics. These options include floating-rate securities, foreign securities and more credit-sensitive securities. Each of these opportunities provides less interest rate sensitivity and many currently offer higher yields.

What Should the Return Objectives Be?

Broadening the universe of opportunities in the fixed-income sector is not a new idea. Core plus strategies have been doing this effectively for many years. But in a core plus strategy, the benchmark remains a guide-post for portfolio construction. The core piece is then supplemented with out-of-benchmark opportunities that are intended to either reduce risk or increase return (or both). Guidelines for managers in this space have evolved and are now reasonably uniform. That makes comparisons to benchmarks relevant and enables an apples-to-apples comparison across managers who are following highly similar guidelines and a clearly defined market benchmark.

Unconstrained approaches are still in the early stages of evolution. Manager guidelines, strategies and tactics can vary widely and there is no market-based benchmark against which to compare performance. This makes comparisons of manager returns difficult and an assessment of risk and return subjective.

So what is an appropriate benchmark for an unconstrained strategy? The unfortunate answer is, "It depends." At Western Asset we have broken down unconstrained strategies into three groupings:

Unconstrained with Bond-Like Risk and Return

The simplest approach to unconstrained is an investment-grade portfolio that seeks to provide bond-like risk and return over the long term, but does not have a benchmark. This allows for asset allocation based on value rather than on the construction of a benchmark. Traditional asset allocation models utilize the Barclays Aggregate Index as the de facto bond allocation. This suggests that the allocations in a portfolio should look somewhat like the benchmark. Once one omits the benchmark, allocations can be made based on the attractiveness of the investment rather than the issuance pattern of benchmark constituents. It also allows for significant flexibility in duration. Normally a benchmark-based strategy will require that the duration of the portfolio be within a certain tolerance relative to the benchmark. In an unconstrained portfolio, the duration can more precisely reflect expectations for future interest rates. There exists the possibility that duration can be zero or even negative if the manager has high conviction that bond prices will decline and rates will rise.

Western Asset's Total Return Unconstrained strategy (TRU) seeks to outperform the long-term expectations for the Barclays Aggregate over a market cycle. The investment approach is active with very broad latitude on duration (-3 to +8 years) and on asset allocation across all of the eligible sectors in a core plus mandate without having to adhere to the benchmark construction. The portfolio must have at least 50% of its holdings in investment-grade securities. This strategy can be appropriate in all market environments, but may be particularly attractive in the current environment. With rates at or near all-time lows, the duration flexibility of the strategy can provide a significant advantage.

Given the characteristics of the portfolio, the objective is to generate a return consistent with the long-term expectations for fixed-income. Historically this has been about 6% per annum. In the current environment, this objective will be difficult to achieve. Still, the flexibility offered by this strategy allows for defensive positioning in rising rate environments and opportunistic deployment of capital when value opportunities arise. It also allows the portfolio managers to emphasize (or deemphasize) either credit or rates when one or the other appears to offer greater (or lesser) value. This suggests that a long-term objective could be 5% to 7% over a market cycle. Alternatively, the objective could be to outperform the aggregate over a market cycle. As another option, some clients choose a target of LIBOR plus 2% to 4%, over a market cycle. While these targets in aggregate fall

within a fairly broad range, the essence is consistent: seek to achieve returns and risk levels that are consistent with traditional fixed-income over a market cycle.

Diversified High-Income

A diversified high-income approach has the ability to allocate up to 100% to below-investment-grade opportunities. It has either broad or no restrictions relating to duration and focuses more on the income opportunities available in the bond market than on the interest rate opportunities. One way to think of this approach is as "equity-lite," offering an opportunity for higher income and less volatility than a typical equity strategy. There are few restrictions in this type of portfolio and the primary source of return is income.

Given the flexibility that this approach offers on the credit side (no ratings restrictions), the objective could either be to maximize total return (through an emphasis on income) or it could be compared with a traditional high-yield mandate/benchmark. The latter would suggest that the neutral allocation would be to high-yield with opportunistic allocations to other high-income opportunities. If compared with a high-yield benchmark, the portfolio would tend to have a greater amount of tracking error than a traditional high-yield strategy and the objective should be to have a better risk-adjusted return rather than achieving a better total return.

Our Global Strategic Income portfolio is a more diversified strategy that opportunistically allocates across a wide range of income-based opportunities and employs various hedging strategies while seeking to reduce downside risk. Our Global High-Yield Plus portfolio is essentially a high-yield portfolio that allows for opportunistic allocations to other high-yielding opportunities. As a result, the Global High-Yield Plus strategy is not truly unconstrained.

In these portfolios, interest rate duration becomes a less critical measure of risk as credit sensitive assets have demonstrated a low level of correlation to US Treasury rates.

Opportunistic Strategies (Higher Risk/Higher Return)

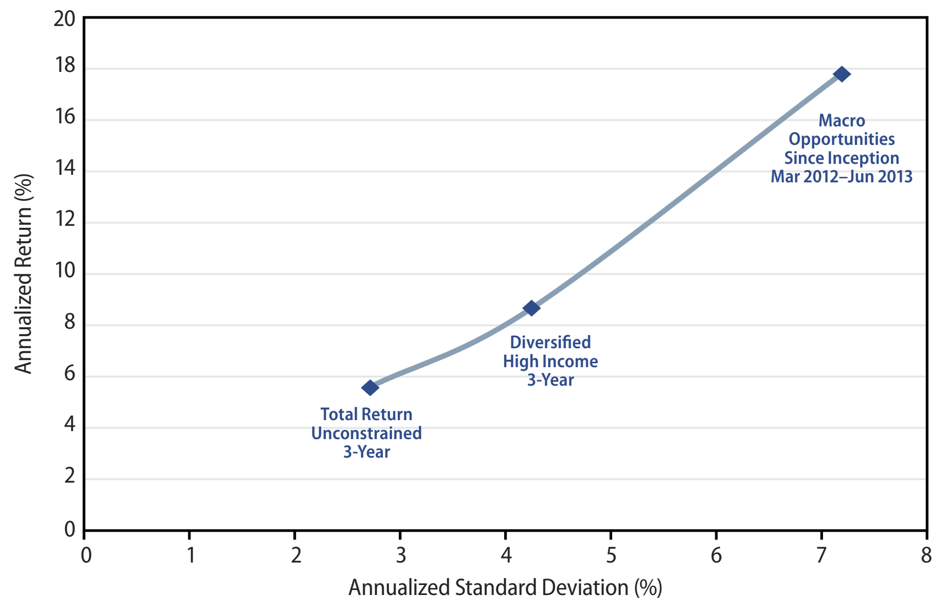
The third unconstrained approach that we will explore seeks to generate higher risk (8% to 10%) and higher return. This approach is purely opportunistic and is more alpha-oriented than the two strategies described above. The approach allows for active trading of key fixed-income factor exposures. These include rates, curve, volatility and currency exposures. These positions are taken primarily through derivative exposures and can vary significantly in both size and direction over short periods of time. The positions can also persist for longer periods of time if deemed appropriate by the managers. Positions can be long, short or market neutral depending on the manager's view.

The dynamic nature of this approach, along with the higher volatility target and the higher return target suggest that the objective should be simply to maximize total return. This is the case in our Macro Opportunities portfolio. While this portfolio seems similar to a hedge fund strategy, there are some significant differences. The first is that there is no financial leverage in the portfolio. The second is that we offer liquidity that is comparable to a traditional bond portfolio.

Three Approaches to Unconstrained Investing: Risk Versus Return

To summarize the strategies described above numerically, we provide the following data:

Exhibit 2
Unconstrained Strategies Historical Risk/Return Comparison



Source: Western Asset. Supplemental Information

The word "unconstrained" on its own is clearly not sufficient to describe these strategies. Throughout the industry the term is used to describe various strategies that are managed without a benchmark or are targeting a total rate of return. Generally, the strategies will have broad guidelines and very different risk profiles.

As can be seen above, even within Western Asset there are multiple products with multiple risk/return targets. Therefore it becomes essential to establish the objective of the strategy and to identify a reasonable range of outcomes despite the fact that these are all "unconstrained" strategies.

What Is the Appropriate Risk Target?

The appropriate risk level will be driven by the return objective. In the case of our TRU product, we have established the guideline that at least 50% of the portfolio must be invested in investment-grade securities. This single constraint dictates that the risk profile should be consistent with the risk of a diversified, traditional fixed-income portfolio.

Our diversified high-income strategy allows greater flexibility with regard to credit quality. It has the flexibility to invest up to 100% in below-investment-grade securities and is free to invest globally. This approach offers a higher yielding, well diversified portfolio. It also seeks to add value through currency exposure and incorporates hedging strategies across the financial markets to mitigate downside risk.

Our opportunistic strategy has demonstrated both higher risk and higher return, suggesting that this product has equity-like characteristics. The primary source of return in this strategy has tended to be from trading gains. We focus on active trading of key fixed-income factor exposures including rates, curve, volatility and currency. Exposures are taken primarily through derivative securities. From a risk management standpoint, we target an

upper bound volatility level of 10%. There is no appropriate market comparator for this type of strategy, but an appropriate performance target for this strategy could be risk-adjusted return.

Where Should These Strategies Be in My Portfolio?

One of the questions that we frequently receive from clients is, "Where does this strategy belong in my portfolio?" Given the differences demonstrated above in risk and return, the answer is not uniform. As all of these strategies are return-seeking, they all carry some equity beta. As a result, none of these strategies are perfect substitutes for traditional bond strategies. Given the current environment—where most market participants are attempting to reduce their portfolio beta to government rates—the low level of beta in these strategies is what is most desirable.

Looking at this question from a pure risk perspective, the allocation should be made from existing holdings that have comparable risk. So in this example TRU would likely be in the traditional bond bucket, Diversified High-Income would be in a hybrid bucket and Macro Opportunities would (could) be in the alternative (equity) bucket.

How Do I Know if the Manager Is Doing a Good Job?

Broad market benchmarks allow an investor to communicate the desired risk characteristics of a portfolio. They also allow a simple assessment of value added by the manager. To the extent that the manager outperforms the benchmark (given comparable risk) the value added can be measured and attributed to various factors. When hiring multiple managers for similar assignments, assigning the same benchmark allows for a fair comparison among managers.

When investors hire an unconstrained manager these comparisons become quite subjective. There has also been much debate about whether the returns of unconstrained strategies represent alpha or beta. We will not address that issue here, but we certainly want to acknowledge the question.

We believe the best measures are risk-adjusted returns versus the account objectives and an appropriate peer group. As noted above, even within Western Asset we have highlighted three unconstrained strategies that should not be in the same peer group. This makes industrywide comparisons extremely difficult. Investors must endeavor to thoroughly understand what their managers intend to do in each mandate, the scope of their investment activity and the likely outcomes in terms of both risk and return.

It is also important to understand what factors are driving returns. In the case of global strategies, we see some portfolios where the return is primarily driven by interest rate moves and other portfolios where returns are primarily driven by currency moves. When we look at unconstrained portfolios, the divergence can be significantly greater. Understanding how the manager takes risk and what risks the manager is likely to take is a critical step toward understanding what appropriate returns may be and where in the portfolio these investments should be held.

Is This a Fad or a Permanent Approach?

Unconstrained bond investing is certainly a popular idea given the current risk and return characteristics reflected in broad market, fixed-income benchmarks. We believe that unconstrained bond investing is always viable as market capitalization-based bond benchmarks are a reflection of issuance rather than value. The relative attractiveness of credit risk versus interest rate risk changes significantly over time as does the appropriateness

of duration, spread duration and yield curve positioning. With a benchmark an investor is selecting certain characteristics that must be reevaluated from time to time. With an unconstrained strategy, the manager has substantially greater flexibility in portfolio construction.

There may come a day when the broad market benchmarks offer more compelling characteristics and investors migrate back into those strategies. But for now, the idea of unconstrained bond portfolios will be at the forefront of conversations until rates normalize and the Federal Reserve ends its extraordinary monetary policy. The future of unconstrained bond portfolios will be largely dependent on the success managers have in the coming cycle.

Conclusions

Investor interest in unconstrained strategies is justified in the current environment. The combination of low interest rates, extraordinarily easy monetary policy and an improving economy suggests that rates may soon normalize and investors may need to consider alternative approaches. Unconstrained strategies are not all the same and many of them are not even comparable. Investors need to fully understand the risk and return objectives for a particular strategy and must evaluate each strategy based on its unique approach and characteristics. The targeted risk and return should determine where in the portfolio these investments reside.

While most unconstrained bond strategies will likely demonstrate somewhat greater equity beta than traditional bond strategies, they will also likely demonstrate substantially less beta to government rates. Therefore investors must not only examine each strategy independently but they must also assess how these allocations are likely to impact their overall portfolio risk.

We believe that fixed-income benchmarks have certain inherent flaws that make an unconstrained approach a viable alternative in all markets. We strongly believe that currently unconstrained strategies can present very attractive investment opportunities in an otherwise uncertain environment.

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Total Return Unconstrained (TRU) Bond Composite

Composite Inception: 7/1/04 | Composite Creation: 10/1/04

	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 (US$mil)	Percentage of Firm Assets	Firm Assets (US$mil)
2003	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$148,333
2004[1]	1	6.22%	5.90%	-na-	-na-	-na-	-na-	$330	0.17%	$197,837
2005	1	3.86%	3.24%	-na-	-na-	-na-	-na-	$1,487	0.60%	$249,233
2006	3	7.25%	6.62%	-na-	-na-	-na-	-na-	$3,472	0.68%	$510,172
2007	4	2.53%	1.92%	-na-	2.19%	-na-	-na-	$5,410	0.87%	$621,493
2008	4	-14.62%	-15.14%	-na-	7.18%	-na-	-na-	$5,294	1.05%	$505,660
2009	4	32.41%	31.64%	-na-	9.37%	-na-	-na-	$4,585	0.95%	$482,218
2010	4	9.42%	8.77%	-na-	9.45%	-na-	-na-	$4,442	0.98%	$453,909
2011	4	1.74%	1.14%	-na-	5.97%	-na-	-na-	$4,019	0.91%	$443,140
2012	3	9.91%	9.26%	-na-	2.99%	-na-	-na-	$4,113	0.89%	$461,891

Description: Western Asset's Total Return Unconstrained (TRU) Bond composite includes portfolios that employ actively managed, diversified fixed-income portfolios. Portfolio construction is based on Western Asset's fundamental view of the fixed-income markets and is independent of broad market benchmarks. The approach is to construct a portfolio in which the manager intends to actively manage sector, duration and term structure exposure.

Objective: Maximize return consistent with the current market environment and outperform the broad market over the course of a market cycle.

Benchmark Description: The composite is not measured against a benchmark as accounts that may comprise the composite are measured on an absolute return basis. There is no benchmark available that appropriately reflects the guidelines of all accounts within the composite.

Base Currency: USD | **Composite Minimum:** No minimum asset size requirement

Fee Schedule: .60 of 1% on first US$100 million, .40 of 1% on amounts over US$100 million.

Examination Period: The composite has been examined for the period from July 1, 2004 to December 31, 2011.

[1]*Partial period return (July 1, 2004 to December 31, 2004).*

Diversified High Income Composite

Composite Inception: 10/1/10 | Composite Creation: 7/17/13

	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 (US$mil)	Percentage of Firm Assets	Firm Assets (US$mil)
2003	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$148,333
2004	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$197,837
2005	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$249,233
2006	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$510,172
2007	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$621,493
2008	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$505,660
2009	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$482,218
2010[1]	1	0.23%	0.13%	-na-	-na-	-na-	-na-	$472	0.10%	$453,909
2011	1	8.29%	7.86%	-na-	-na-	-na-	-na-	$464	0.10%	$443,140
2012	1	13.93%	13.48%	-na-	-na-	-na-	-na-	$478	0.10%	$461,891

Description: Western Asset's Diversified High Income composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios seek to generate income from diversified investments in high yielding securities from all sectors of the global fixed-income market. The approach is to construct a diversified portfolio of global high income securities, including investment-grade credit, non-dollar, high yield, bank loan, emerging markets, and structured securities. We seek to add value through sector rotation, yield curve positioning, issue selection, duration management, country selection, and currency positioning.

Objective: Maximize return consistent with the current market environment and outperform the broad market over the course of a market cycle.

Benchmark Description: The composite is not measured against a benchmark as accounts that may comprise the composite are measured on an absolute return basis. There is no benchmark available that appropriately reflects the guidelines of all accounts within the composite.

Base Currency: USD | **Composite Minimum:** No minimum asset size requirement.

Fee Schedule: .40 of 1% on first US$100 million, .30 of 1% on the next US$100 million.

[1]*Partial period return (October 1, 2010 to December 31, 2010).*

Macro Opportunities Composite

Composite Inception: 4/1/12 | Composite Creation: 5/14/12

	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 (US$mil)	Percentage of Firm Assets	Firm Assets (US$mil)
2004	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$197,837
2005	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$249,233
2006	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$510,172
2007	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$621,493
2008	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$505,660
2009	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$482,218
2010	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$453,909
2011	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	$443,140
2012	1	17.28%	16.77%	-na-	-na-	-na-	-na-	$112	0.02%	$461,891

Description: Western Asset's Macro Opportunities composite is an unconstrained, global macro strategy that focuses on long-term value investing and active management of duration, yield curve and volatility. It does this primarily by identifying relative value among securities and sectors in global fixed-income markets.

Objective: Maximize total return.

Benchmark Description: The composite is not measured against a benchmark as accounts that may comprise the composite are measured on an absolute return basis. There is no benchmark available that appropriately reflects the guidelines of all accounts within the composite.

Base Currency: USD | **Composite Minimum:** US$1million

Fee Schedule: .60 of 1% on first US$100 million, .40 of 1% on the next US$100 million.

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, 2011.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.The verification and performance examination reports are available upon request.

For GIPS® purposes, the Firm is defined as Western Asset, a primarily fixed-income investment manager comprised of Western Asset Management Company, Western Asset Management Company Limited, Western Asset Management Company Pte. Ltd., Western Asset Management Company Ltd, Western Asset Management Company Pty Ltd, and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Dubai. Each Western Asset company is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason") but operates autonomously, and Western Asset, as a firm, is held out to the public as a separate entity. Western Asset Management Company was founded in 1971.

The Firm is comprised of several entities as a result of various historical acquisitions made by Western Asset and their respective performance has been integrated into the Firm in line with the portability requirements set forth by GIPS.

The Composite is valued monthly. The Composite returns are the asset-weighted average of the performance results of all the accounts in the Composite. 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 highest tier of the appropriate strategy's fee schedule is used. This model fee does not reflect the deduction of performance based fees. The portfolios in the composites 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. Composite performance results are time-weighted net of trading commissions and other transaction costs including non-recoverable withholding taxes. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The returns for the accounts in the Composite are calculated using a time-weighted rate of return adjusted for weighted cash flows. The returns for commingled funds in the Composite are calculated daily using net asset value (NAV). Trade date accounting is used since inception and market values include interest income accrued on securities held within the accounts. Performance is calculated using asset values denominated in a base currency. Composite assets at year-end presented in the schedule are translated to U.S. dollars using end of year exchange rates.

Composite returns are measured against a market index. The market index 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 market index presented was obtained from third party sources deemed reliable but not guaranteed for accuracy or completeness. Benchmark returns and benchmark 3-yr standard deviation are not covered by the report of independent accountants.

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. For each annual period, accounts with less than 12 months of returns are not represented in the dispersion calculation. 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. Three-year annualized ex-post standard deviation measures prior to 2011 are not covered by the report of independent accountants.

Past investment results are not indicative of future investment results.

Western Asset's list of composite descriptions is available upon request. Please contact Veronica A. Amici at 626•844•9535 or ramici@westernasset.com. All returns for strategies with inception prior to January 1, 2003 are available upon request.

For more information on Western Asset visit our website at **www.westernasset.com**