

# US Broad Market: Strategy Update

On the Web: <https://wam.gt/3D7E8Mu>

*After a tumultuous 2022 that saw extreme volatility across risk assets and a breakdown of the traditional correlations between bonds and stocks, we're providing both a review and outline of what we see ahead for our US Broad Market portfolios. While last year was humbling, we have been in this position before and recovered. Looking ahead, we're confident that our diversified investment approach of using top-down macro strategies along with bottom-up sector/subsector and issue selection—which has historically shown the ability to outperform in a variety of different market environments—will be able to take advantage of current market dislocations.*



**Travis M. Carr, CFA**  
Product Specialist

## KEY TAKEAWAYS

- 2022 was arguably the worst year for bonds since the Great Depression and by far the worst year for the Bloomberg US Aggregate Index since its inception in 1976.
- Our portfolios underperformed their benchmark, primarily due to our duration positioning.
- Yields are now much more attractive and at heights unseen in many years.
- After last year's experience, credit spreads have widened and, in many cases, are now above their longer-term averages.
- Looking ahead, we expect that ongoing progress toward lower inflation will continue to support longer-dated bonds and spread sectors.
- We are focused and determined to recover our performance and aim to reach new highs by adhering to our time-tested philosophy and the process that has successfully guided the Firm's investments for over 50 years.

# US Broad Market: Strategy Update

By Travis M. Carr, CFA

## Background

Coming into 2022, Western Asset anticipated an environment of positive but decelerating global growth from the robust levels of 2021. Our view at the time was that the impact of the extraordinary monetary and fiscal stimulus measures employed by central banks and governments worldwide to protect their respective economies from Covid-related difficulties would recede and eventually dissipate. Staffing and production levels would normalize and supply-chain bottlenecks would ease. Global supply and demand of goods and services would become more balanced and economic normalcy would return. Moreover, inflation pressures, despite being more persistent than anticipated, would recede during 2022. Against this backdrop, we expected that yields would stay fairly low and range-bound and that risk assets would do well with our US Broad Market portfolios, which were well-positioned to take advantage of a normalizing macro environment by maintaining diversified exposure across select spread sectors and a duration hedge against broad market risks.

## What Happened

As 2022 progressed, global inflation pressures continued to rise and far exceeded both market and central bank expectations. Price shocks were then exacerbated by Russia's invasion of Ukraine, which put additional pressure on food and energy prices, and the reinstatement of Covid lockdowns in China added to supply-chain pressures. These collective developments forced major central banks to suddenly and sharply pivot to a much more hawkish monetary policy stance. For instance, the Federal Reserve (Fed) had to dramatically shift course and continually shift its rate-hike expectations higher throughout the year. After starting the year only anticipating the need to raise the fed funds rate by 75 basis points (bps) in 2022, it ended up raising rates by a total of 425 bps, which culminated in the fastest pace of rate hikes in a single year since the 1980s. What resulted was arguably the worst year for bonds since the Great Depression and by far the worst year for the Bloomberg US Aggregate Index since its inception in 1976.

The lack of diversification in the market—as the traditional diversifying correlation of stocks/bonds broke down in 2022—presented an additional challenge for investors last year. Historically, Western Asset has successfully used diversification to reduce the volatility of portfolios. This has served as a more effective approach than simply cutting positions. However, portfolio diversification requires that there exist negatively correlated assets to be used together in a portfolio. For example, US Treasury bonds historically have exhibited a negative correlation to risk assets in most market environments. However, during most of 2022, almost all assets were positively correlated and sold off at the same time. In short, there was no safe place to hide.

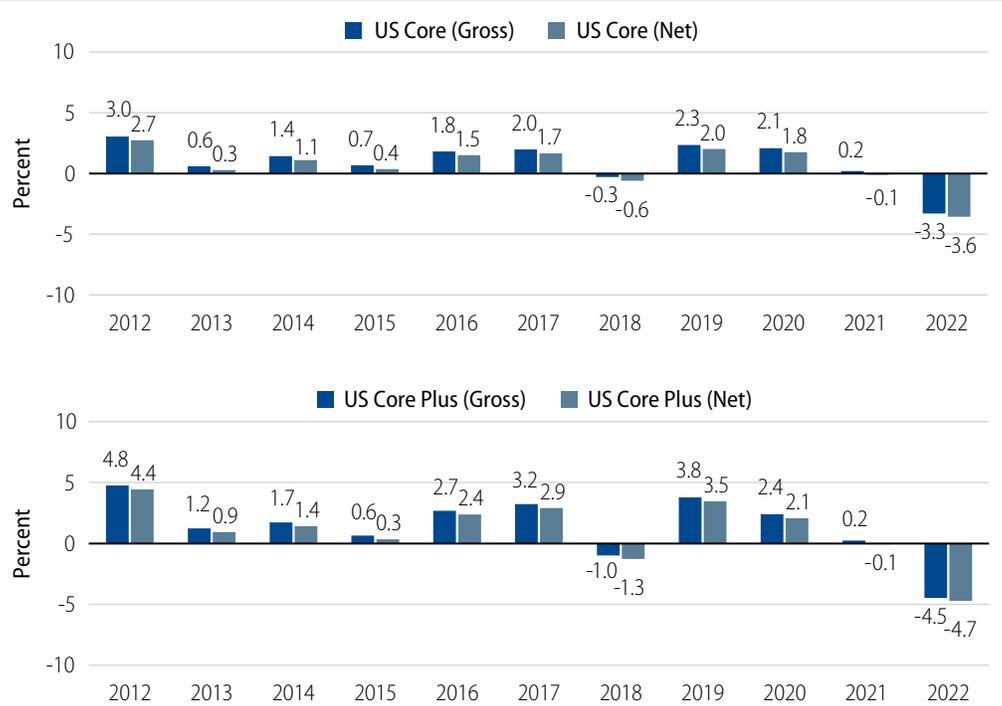
## Impact on US Broad Market Portfolios

Not only was 2022 a difficult year for the bond market in general, but Western Asset's US Broad Market portfolios had a challenging year as well. Our portfolios underperformed their benchmark, primarily due to our duration positioning. Western Asset is an active value manager and given that style, sometimes we find our positioning offside; this was certainly one of those times. However, we have been in this position before and in each of those instances, we have been able to subsequently recover the underperformance and go on to achieve new highs. We're confident we can do that again. Our diversified approach of using top-down macro strategies along with bottom-up sector/subsector and issue selection has historically shown the ability to outperform in a variety of different market environments. In fact, prior to the difficult 2022 experience, we had been able to deliver fairly consistent outperformance over the last 10 years in different risk-on and risk-off markets (Exhibit 1).

*"The lack of diversification in the market presented an additional challenge for investors last year."*

“... prior to the difficult 2022 experience, we had been able to deliver fairly consistent outperformance over the last 10 years in different risk-on and risk-off markets.”

Exhibit 1: US Core and US Core Plus Excess Returns vs. Bloomberg US Aggregate USD Unhedged Index



US Core and US Core Plus Composite Returns (%) vs. Bloomberg US Aggregate USD Unhedged Index

as of 31 Dec 2022	1-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	SI*
Core Composite (gross)	-0.70	-16.31	-16.31	-3.28	0.04	1.69	7.41
Core Composite (net)	-0.72	-16.57	-16.57	-3.57	-0.26	1.39	7.09
Benchmark	-0.45	-13.01	-13.01	-2.71	0.02	1.06	6.69
Core Plus Composite (gross)	-0.78	-17.49	-17.49	-3.64	-0.06	1.94	5.74
Core Plus Composite (net)	-0.81	-17.74	-17.74	-3.93	-0.36	1.64	5.42
Benchmark	-0.45	-13.01	-13.01	-2.71	0.02	1.06	4.50

as of 31 Dec 2021	1-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	SI*
Core Composite (gross)	-0.05	-1.35	-1.35	6.28	4.78	4.25	7.98
Core Composite (net)	-0.08	-1.65	-1.65	5.97	4.47	3.94	7.66
Benchmark	-0.26	-1.54	-1.54	4.79	3.57	2.90	7.14
Core Plus Composite (gross)	0.26	-1.32	-1.32	6.86	5.23	4.82	6.65
Core Plus Composite (net)	0.24	-1.61	-1.61	6.54	4.91	4.51	6.33
Benchmark	-0.26	-1.54	-1.54	4.79	3.57	2.90	5.16

\*Core Since Inception 01 Apr 74; Core Plus Since Inception 01 Feb 93

Source: Bloomberg, Western Asset. As of 31 Dec 22.

**Past investment results are not indicative of future investment results.** Returns for periods greater than one year are annualized. 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 fee, the actual account weighted fees will be used for the net-of-fee composite return calculations. Net-of-fee composite return calculations using actual account weighted fees may include fund returns that incur higher fees than those applied to separately managed accounts. Please see Performance and Risk Disclosure section for more information.

### US Broad Market Positioning Moves

Over the course of last year, we significantly adjusted our yield-curve positioning in US Broad Market portfolios. Specifically, we reduced our exposure to the front of the yield curve, while at the same time increasing exposure to the back end of the curve. The environment over most of 2022 was characterized by elevated uncertainty around the very near-term path for inflation and Fed policy rates, but also by elevated longer-term yields that we thought represented value. In recognition of that near-term uncertainty, we reduced exposure to the parts of the yield curve that are most sensitive to monthly inflation prints and to Fed meetings/announcements. At the same time, in recognition of its compelling value, we increased exposure to those parts of the yield curve where we most expected yields to decline over time as growth moderates and inflation trends lower.

We also looked to reduce emerging market (EM) exposure as this sector can be particularly sensitive to an environment of ongoing geopolitical turmoil and aggressive Fed rate hikes. Earlier last year, in Core Plus portfolios we trimmed exposure to local currency EM debt, and later in the year, we trimmed exposure to USD-denominated EM debt in all Broad Market portfolios as we saw better relative value in other investment-grade sectors. While our long-term view of EM continued to be very constructive, we recognized that the near-term outlook was uncertain and that EM volatility was likely to remain elevated.

On the flip side, volatility across fixed-income markets throughout 2022 has served to restore value in spread sectors. Credit spreads have widened and, in many cases, are now above their longer-term averages. While our outlook is for positive, below-trend growth, the potential for Fed overtightening leading to a recession cannot be ruled out. To help guard against this outcome, we generally moved up in quality in our other spread sector allocations. For instance, we trimmed exposure to high-yield bonds and bank loans and increased our exposure to high quality sectors, which typically exhibit less volatility and where valuations looked attractive, including investment-grade corporates and senior tranches of non-agency structured products, and we closed our underweight to agency mortgage-backed securities (MBS) where performance has significantly lagged the performance of US Treasury securities.

### Reasons for Optimism

High and persistent inflation pressures, as well as the subsequent hawkish pivot by the Fed, were the primary cause of the significant selloff in the bond market last year. However, those pressures appear to be abating. The December 2022 Consumer Price Index (CPI) report showed the third straight monthly decline in the core inflation year-over-year (YoY) reading at 5.7% compared to its peak of 6.6% in September. YoY headline CPI has also slowed to 6.5% in December compared to its peak of 9.1% in June.

Forward-looking indicators of inflation have also cooled significantly and we expect that inflation readings will continue to ease. Inflation expectations have moderated and are substantially lower from their summer peak. Commodity prices have fallen sharply from elevated levels earlier in the year. Moreover, tighter monetary policy is having an impact, especially on the housing market as home prices have started cooling. Goods prices are also falling as inventory levels are building. We believe if this downward pressure on inflation persists, the Fed will be able to continue to slow the pace of its rate hikes and then pause by no later than the end of the first quarter of 2023. Once the Fed pause is confirmed, this should bode well for all financial markets.

### Where Do We Go From Here?

The realized inflation data will continue to play an outsized role on portfolio performance moving forward. An environment of broad progress toward lower inflation is one in which markets can respond sharply to good news, as they did early in the summer of 2022, especially if that good news is validated by an eventual pause in Fed rate hikes. To us, this still appears to be the most likely outcome. Accordingly, we expect that ongoing progress toward lower inflation will continue to support longer-dated bonds and spread sectors. The positive outcome of a historically

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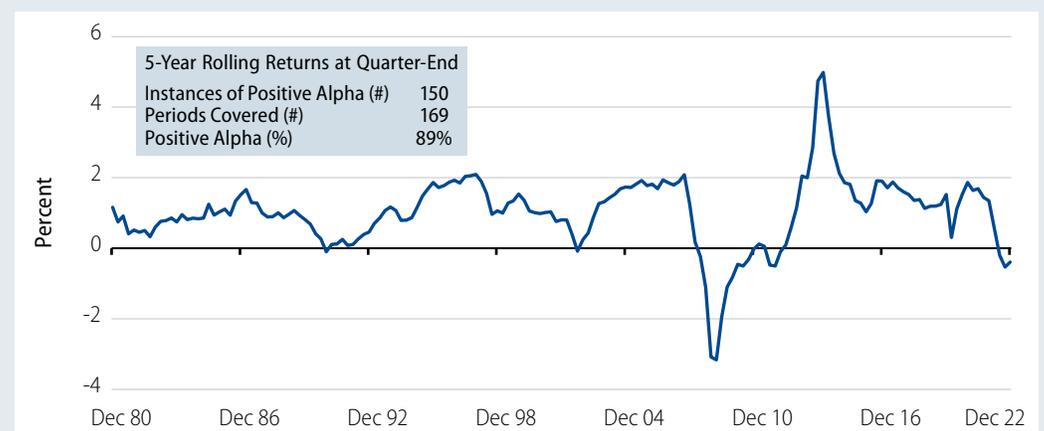
*“Credit spreads are currently above their long-term averages and we believe they are pricing in a considerable pessimism that we think is likely overdone.”*

brutal bear market is that yields are now at heights unseen in many years. The yield on the Bloomberg US Aggregate Index, for example, has not been this high since 2007. The best predictor of future returns on a high-quality bond portfolio is the yield. With yields on most spread sectors ranging between 5% and 8%, and rate volatility expected to decline, future fixed-income returns appear compelling relative to other asset classes. We are also optimistic about the performance of our US Broad Market portfolios. Performance over 4Q22 has been more encouraging and we believe portfolios are positioned to continue to do well going forward. While it’s impossible to identify in advance what the drivers of potential excess returns may be over the coming months, the yield advantage of the portfolio over the benchmark is a good starting point. As of December 31, 2022, our representative US Core portfolio had a cash flow yield of 88 bps more than the benchmark, and our representative US Core Plus portfolio had a cash flow yield of 150 bps more than the benchmark. Credit spreads are currently above their long-term averages and we believe they are pricing in a considerable pessimism that we think is likely overdone. Spreads may continue to be volatile in the near term, but we believe that over time spreads should tighten from current levels. US dollar strength has been persistent this year, reaching 20- to 30-year highs versus some currencies, but we continue to believe that the US dollar is overvalued. A confirmed peak in inflation, a Fed pause, better distribution of global growth and stabilization of rates would all bode well for US dollar depreciation. While our rates positioning has been a detractor in 2022, we believe yields should edge lower over time as growth decelerates and inflation moderates; as such, our duration positioning, especially at the long end of the curve, can also be a positive contributor moving forward. We also believe that duration can serve as a valuable diversifier if our base case is too optimistic and economic growth slows more than we expect.

### Maintaining a Longer-Term Perspective

Investment managers may have strong performance in some markets and weak performance in others, but a history of consistently favorable rolling five-year returns can be a good gauge of returns over long periods of time. Exhibit 2 displays the rolling five-year excess returns versus the index for Western Asset’s Core Full Capabilities’ track record over the last 42 years. There were 169 rolling five-year period results, and Western Asset showed an outperformance on a net basis 150 times or in 89% of them.

**Exhibit 2: Core Full Capabilities 5-Year Annualized Rolling Excess Returns (Net) vs. Index**



Source: Bloomberg, Western Asset. As of 31 Dec 22.

While this has been a challenging period for us and for many investors, we believe our US Broad Market portfolios are positioned well for better days ahead. We are focused and determined to recover our performance and aim to reach new highs by adhering to our time-tested philosophy and the process that has successfully guided the Firm’s investments for over 50 years. Markets are incredibly difficult and they can be humbling at times. All investment

managers will have their good and bad times. We have weathered some turbulent periods in the past but we have remained resilient—and come out stronger on the other side. While there are no guarantees, at Western Asset we feel very strongly that our value-driven investment process combined with our disciplined pursuit of diversified strategies should continue to produce the results our clients have come to expect.

#### ENDNOTES

- 1 This paper runs through basic performance tests that shed light on a manager's strengths and weaknesses, using Western Asset's long-term Core Full Capabilities performance track record. The Core Full Capabilities performance record represents the long-term investment results for Western Asset's US-based broad market portfolios, reflecting the evolution of the Core (and Core Plus) investing style as it expanded its scope of permissible instruments (such as derivatives, below-investment-grade bonds and non-US bonds). The record reflects approximately the last 25 years of Core Plus composite performance—a more detailed explanation, along with the standard Core Plus composite information, is in footnote 2 and in the Performance Disclosure. The results are informative, as they provide a compelling rebuttal of the most common misconceptions we sometimes hear. Obviously, we have a clear self-interest in championing our results, but the statistical tests are straightforward, and the results speak for themselves.
- 2 The Core Full Capabilities performance presented is supplemental information generated from actual portfolio performance that represents the evolution of Western Asset's investment skills over the history of the Firm's core fixed-income investment style. From inception through 31 December 1988, performance is represented by accounts that participated in the US Core Investment Grade No Futures & Options Composite. Beginning 1 January 1989 and through 31 December 1990, our capabilities expanded to include futures and options, and therefore this performance consists of accounts that participated in the US Core Investment Grade Futures & Options Composite. From 1 January 1991 through 31 January 1993, performance is represented by accounts participating in the US Core Below Investment Grade Futures & Options Composite to reflect our expanded capabilities to include below investment-grade securities. Beginning 1 February 1993 to current, we started utilizing opportunistic investment in non-US\$ securities, and therefore this performance consists of accounts participating in the US Core Plus Composite.

As of 31 Dec 22, returns for periods greater than one year are annualized. The Core Full Capabilities performance provided is supplemental to the US Core Plus Composite. Please see performance disclosures. Returns illustrated should not be considered an indicator or guarantee of future results and should not constitute the sole basis for an investment decision.

**Past results are not indicative of future investment results.** This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

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Rolling 1-Year Performance Returns Period Ending:	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
US Core Composite (gross of fees)	-16.31%	-1.35%	9.58%	11.06%	-0.29%
US Core Composite (net of fees)	-16.57%	-1.65%	9.26%	10.73%	-0.59%
Bloomberg US Aggregate Index	-13.01%	-1.54%	7.51%	8.72%	0.01%

**Base Currency:** USD

Past investment results are not indicative of future investment results. Source for performance figures is Western Asset. Please refer to the Performance Disclosure for more information. Currency exchange rate fluctuations will impact the value of your investment.

**The value of investments and the income from them may go down as well as up and you may not get back the amount you originally invested.**

#### Investment Risks:

The strategy does not offer any capital guarantee or protection and you may not get back the amount invested. The strategy is subject to the following risks which are materially relevant but may not be adequately captured by the indicator:

**Asset-Backed Securities:** The timing and size of the cash-flow from asset-backed securities is not fully assured and could result in loss for the strategy. These types of investments may also be difficult for the strategy to sell quickly.

**Bonds:** There is a risk that issuers of bonds held by the strategy may not be able to repay the investment or pay the interest due on it, leading to losses for the strategy. Bond values are affected by the market's view of the above risk, and by changes in interest rates and inflation.

**Counterparties:** The strategy may suffer losses if the parties that it trades with cannot meet their financial obligations.

**Credit:** The risk that an issuer will be unable to pay principal and interest when due.

**Derivatives:** The strategy makes significant use of derivatives. The use of derivatives can result in greater fluctuations of the portfolio's value.

**Emerging Markets:** The strategy may invest in the markets of countries which are smaller, less developed and regulated, and more volatile than the markets of more developed countries.

**Inflation:** The value of bonds held by the strategy that are intended to protect against inflation may be negatively affected by changes in interest rates.

**Interest Rates:** Changes in interest rates may negatively affect the value of the strategy. Typically as interest rates rise, bond values fall.

**Liquidity:** In certain circumstances it may be difficult to sell the strategy's investments because there may not be enough demand for them in the markets, in which case the strategy may not be able to minimise a loss on such investments.

**Mortgage-Backed Securities:** The timing and size of the cash-flow from mortgage-backed securities is not fully assured and could result in loss for the strategy. These types of investments may also be difficult for the strategy to sell quickly.

*This strategy is managed by Western Asset. This information is only for use by professional clients, eligible counterparties or qualified investors. It is not aimed at, or for use by, retail clients.*

# Performance Disclosure

December 31, 2021

## US Core Composite\*

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

	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
2012	21	7.26%	6.94%	4.21%	2.42%	2.38%	0.69%	10,586	2.29%	461,891
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

**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 size requirement as of 1/1/2020 (previously \$25 million).

**Current Fee Schedule:** The investment management fee schedule for the separate account is .30 of 1% on the first \$100 million, .20 of 1% on amounts over \$100 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, 2020 for the Western Asset Core Bond L.L.C. was .36 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, 2021.**

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 from January 1, 1993 to December 31, 2014 and January 1, 2019 to December 31, 2021. 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, LLC; Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorized and regulated by Comissão de Valores Mobiliários and Brazilian Central Bank; Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160; Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore; Western Asset Management Company Ltd, a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan; and Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN 145930), with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Zürich. Each Western Asset company is a wholly owned subsidiary of Franklin Resources, Inc. 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. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020. This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK as defined by the FCA. This communication may also be intended for certain EEA countries where Western Asset has been granted permission to do so. For the current list of the approved EEA countries please contact Western Asset at +44 (0)20 7422 3000.

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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](mailto:derek.fan@westernasset.com). All returns for strategies with inception prior to January 1, 2012 are available upon request.

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Bloomberg US Aggregate Index	-13.01%	-1.54%	7.51%	8.72%	0.01%

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**Credit:** The risk that an issuer will be unable to pay principal and interest when due.

**Currency:** Changes in exchange rates between the currencies of investments held by the strategy and the strategy's base currency may negatively affect the value of an investment and any income received from it.

**Derivatives:** The strategy makes significant use of derivatives. The use of derivatives can result in greater fluctuations of the portfolio's value.

**Emerging Markets:** The strategy may invest in the markets of countries which are smaller, less developed and regulated, and more volatile than the markets of more developed countries.

**Hedging:** The strategy may use derivatives to reduce the risk of movements in exchange rates between the currency of the investments held by the strategy and base currency of the portfolio itself (hedging). However, hedging transactions can also expose the portfolio to additional risks, such as the risk that the counterparty to the transaction may not be able to make its payments, which may result in loss to the strategy.

**Inflation:** The value of bonds held by the strategy that are intended to protect against inflation may be negatively affected by changes in interest rates.

**Interest Rates:** Changes in interest rates may negatively affect the value of the strategy. Typically as interest rates rise, bond values fall.

**Liquidity:** In certain circumstances it may be difficult to sell the strategy's investments because there may not be enough demand for them in the markets, in which case the strategy may not be able to minimise a loss on such investments.

**Low-rated Bonds:** The strategy may invest in lower rated or unrated bonds of similar quality, which carry a higher degree of risk than higher rated bonds.

**Mortgage-Backed Securities:** The timing and size of the cash-flow from mortgage-backed securities is not fully assured and could result in loss for the strategy. These types of investments may also be difficult for the strategy to sell quickly.

*This strategy is managed by Western Asset. This information is only for use by professional clients, eligible counterparties or qualified investors. It is not aimed at, or for use by, retail clients.*

# Performance Disclosure

December 31, 2021

## US Core Plus Composite\*

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

	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
2012	121	8.97%	8.65%	4.21%	2.61%	2.38%	1.05%	54,299	11.76%	461,891
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

**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 \$25 million).

**Current Fee Schedule:** The investment management fee schedule for the separate account is .30 of 1% on the first \$100 million, .20 of 1% on amounts over \$100 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, 2020 for the Western Asset US Core Plus, LLC was .35 of 1% and for the Western Asset US ESG Core Plus Fund L.L.C. was .95 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, 2021.**

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 from February 1, 1993 to December 31, 2014 and January 1, 2019 to December 31, 2021. 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, LLC; Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorized and regulated by Comissão de Valores Mobiliários and Brazilian Central Bank; Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160; Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore; Western Asset Management Company Ltd, a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan; and Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN 145930), with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Zürich. Each Western Asset company is a wholly owned subsidiary of Franklin Resources, Inc. 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. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020. This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK as defined by the FCA. This communication may also be intended for certain EEA countries where Western Asset has been granted permission to do so. For the current list of the approved EEA countries please contact Western Asset at +44 (0)20 7422 3000.

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 fee, the actual account weighted fees will be used for the net-of-fee composite return calculations. Net-of-fee composite return calculations using actual account weighted fees may include fund 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](mailto:derek.fan@westernasset.com). All returns for strategies with inception prior to January 1, 2012 are available upon request.

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