**Investment overview**
The Western Asset Corporate Bond Ladders are designed to deliver income opportunities while preserving capital and reducing interest rate risk by investing in laddered corporate bonds. The strategy invests in a diversified portfolio of credit-monitored investment-grade corporate securities with equally weighted maturities from 1-5 years.

**Investment objective**
The strategy seeks to maintain a competitive level of income while preserving of principal by investing — and reinvesting — in a well-diversified portfolio of investment-grade corporate bonds with laddered maturities.

We believe:
- Laddered portfolios may offer advantages over self-managed portfolios in creating a stable stream of income
- Ladders represent a disciplined approach that allows investors to manage changes in interest rates
- Credit monitoring may enhance income by providing opportunities to allocate across the full range of investment-grade securities
- A diversified set of bonds with staggered maturities and coupon stream may provide continued opportunities for reinvestment

**Key differentiators**

<table>
<thead>
<tr>
<th>Team-managed approach</th>
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</thead>
<tbody>
<tr>
<td>Team unites groups of specialists dedicated to different market sectors</td>
</tr>
<tr>
<td>Each group of sector specialists utilizes expertise in bottom-up analysis of respective sector</td>
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</tbody>
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<table>
<thead>
<tr>
<th>In-depth bond research</th>
</tr>
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<tbody>
<tr>
<td>Looks across sectors and issues to select attractive income opportunities and ensure diversification when reinvesting cash flows</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Overseen by a fixed income leader</th>
</tr>
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<tbody>
<tr>
<td>Access to a highly regarded proprietary credit research team in selecting and monitoring holdings</td>
</tr>
<tr>
<td>Exclusive focus on fixed income management</td>
</tr>
<tr>
<td>Long tenure managing separately managed accounts in taxable and tax-exempt markets</td>
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</tbody>
</table>

**Management team**
Western Asset, one of the world’s leading fixed income managers, was founded in 1971. With a focus on long-term fundamental value investing that employs a top-down, bottom-up approach, the firm has nine offices around the globe and deep experience across the range of fixed income sectors. Western Asset has been recognized for its emphasis on team management and intensive proprietary research, supported by robust risk management.

**Western Asset team-managed approach**
- Team unites groups of specialists dedicated to different market sectors
- Each group of sector specialists utilizes their expertise in bottom-up analysis of each portfolio sector

**Risks:** All investments involve risk, including the loss of principal, and there is no guarantee that investment objectives will be met. Fixed income securities are subject to interest rate and credit risk, which is a possibility that the issuer of a security will be unable to make interest payments and repay the principal on its debt. As interest rates rise, the price of fixed income securities falls.

Foreign securities, where permitted, are subject to the additional risks of fluctuations in foreign exchange rates, changes in political and economic conditions, foreign taxation, and differences in auditing and financial standards. These risks are magnified in the case of investments in emerging markets.

Diversification does not assure a profit or protect against market loss.

Tapering of the Federal Reserve Board’s quantitative easing program and a general rise in interest rates may lead to increased portfolio volatility.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
**Investment process**

**STEP 1**
Identify term structure of ladder

**Term structure**
- Purchase bonds maturing at regular intervals from 1-5 or 1-10 years
- Hold securities to maturity and reinvest back out at longest maturity rung of ladder
- Manage reinvestment risk by staggering maturities and coupon streams across a diverse mix of sectors and issuers

**STEP 2**
Identify attractive sectors and industries

**Sector and issue decision**
- Employ in-depth research to uncover yield opportunities across the investment-grade rating spectrum
- Winnow portfolio candidates using proprietary credit analysis

**STEP 3**
Build portfolio from credit-monitored approved list

**Review/sell process**
- Monitor credits constantly, despite intent to hold all securities until maturity
- Re-examine whether a particular investment should continue to be held when the issuer’s ability to pay the coupon or repay upon maturity is in doubt

**Why invest in a corporate bond ladder?**
- Help minimize impact of rising rates by allowing bonds to roll down curve until maturity
- May provide greater income from investing at potentially higher rates
- May benefit from owning well-diversified portfolio of individual bonds, and ongoing professional credit monitoring

**How reinvesting can advance the ladder**

As bonds in each rung of the ladder mature, the principal plus interest are typically reinvested into longer-maturing, higher-yielding bonds.

The investment process may change over time. There is no guarantee the manager’s investment process will be successful. For illustrative purposes only. Minimum initial investment may vary.

The characteristics set forth above are intended as a general illustration of some of the criteria the strategy team considers in selecting securities for client portfolios. There is no guarantee that investment objectives will be achieved.
Portfolio information¹ as of June 30, 2019

**Characteristics**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Duration (Years)</td>
<td>2.37</td>
</tr>
<tr>
<td>Average Maturity (Years)</td>
<td>2.58</td>
</tr>
<tr>
<td>Average Coupon Rate (%)</td>
<td>3.24</td>
</tr>
<tr>
<td>Yield to Worst (%)</td>
<td>2.28</td>
</tr>
<tr>
<td>Current Yield (%)</td>
<td>3.16</td>
</tr>
</tbody>
</table>

**Credit Quality (%)²**

- **AAA** 2.40
- **AA** 19.56
- **A** 53.18
- **BBB** 24.87
- **Below BBB** 0.00
- **Not Rated** 0.00
- **Other** 0.00

**Maturity (%)**

- 0 - 1 16.48
- 1 - 2 21.49
- 2 - 3 19.33
- 3 - 4 22.23
- 4 - 5 20.48

¹ Source: Legg Mason. Portfolio characteristics and sector weightings are based on a representative account within the composite. Portfolio characteristics and sector weightings of individual client portfolios in the program may differ, sometimes significantly, from those shown above. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors listed and should not be used as a sole basis to make any investment decisions.

² Credit quality is a measure of a bond issuer’s ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security’s rating as provided by the following Nationally Recognized Statistical Rating Organizations (“NRSRO”): Standard and Poor’s (“S&P”), Moody’s Investors Service (“Moody’s”), Fitch Ratings, Ltd. In the event a portfolio security is rated by more than one NRSRO, the higher rating is shown. In the case where a security is not rated by an NRSRO, these are listed as “Not Rated”. The credit quality of the investments in the Portfolio does not apply to the stability or safety of the Portfolio. These ratings may change over time. The Portfolio itself has not been rated by an NRSRO.
Index/Terms and definitions:

Maturity is the date at which a debt instrument is due and payable. A bond due to mature on January 1, 2010, will return the bondholder’s principal and final interest payment when it reaches maturity on that date. Bond yields are frequently calculated on a yield-to-maturity basis.

Duration is the measure of the price sensitivity of a fixed income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

Yield to worst (YTW) is based on a portfolio’s current holdings on one specific day, is gross of all portfolio expenses, and is calculated based on assumptions 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 of a bond portfolio is the market-weighted average of the YTWs of all the bonds in the portfolio.

Standard deviation measures the risk or volatility of an investment’s return over a particular time period; the greater the number, the greater the risk.

The Up capture ratio measures the manager’s overall performance to the benchmark’s overall performance, considering only quarters that are positive in the benchmark. An up capture ratio of more than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark’s positive quarters.

The Down capture ratio is the ratio of the manager’s overall performance to the benchmark’s overall performance, considering only quarters that are negative in the benchmark. A down capture ratio of less than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark’s negative quarters and protects more of a portfolio’s value during down markets.

Alpha is a measure of performance vs. a benchmark on a risk-adjusted basis. A positive alpha of 1.0 means the portfolio has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. Alpha is a measure of the difference between actual returns and expected performance measuring sensitivity to index movements.

Beta measures the sensitivity of an investment to the movement of its benchmark. A beta higher than 1.0 indicates the investment has been more volatile than the benchmark and a beta of less than 1.0 indicates that the investment has been less volatile than the benchmark.

Sharpe ratio is a risk-adjusted measure, calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe ratio, the better the portfolio’s historical risk-adjusted performance.

R-squared measures the strength of the linear relationship between a fund and its benchmark. R-squared at 100 implies perfect linear relationship and zero implies no relationship exists.

Current Yield is defined as the coupon of a bond divided by its price.

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