

## WESTERN ASSET GOV/CORP PORTFOLIOS

### Investment overview

The Western Asset Gov/Corp Portfolios invest primarily in securities within the Bloomberg Barclays U.S. Intermediate Government/Credit Index, including: U.S. Treasury securities, federal agency securities, and investment-grade corporate bonds, to seek to maximize total return.

### Investment objective

#### Seeks to:

Preserve principal and outperform passive investment strategies by investing primarily in intermediate-term corporate and U.S. government debt (including Treasuries and Agencies)

### Investment philosophy

#### Long-term

#### Active duration management

#### Value-oriented

- Identify and favor sectors and issuers that are undervalued or out of favor in the market

### Diversified strategies<sup>1</sup>

- Results do not depend on only one or two opportunities; multiple themes are employed in portfolios. Diversification seeks to limit the impact of a single adverse market event.
- Strive to add incremental value over time and potentially reduce volatility.

### Sector rotation

- The Gov/Corp Portfolios predominantly focus on investment-grade securities similar to those represented within the Bloomberg Barclays U.S. Intermediate Government/Credit Index<sup>2</sup>.

### Key differentiators

#### Team-managed approach

Utilizes a team of sector specialists

#### Leverage Western Asset Management resources

- Institutional-caliber buying power and trading expertise
- Access to proprietary credit research team
- Exclusive focus on fixed income management

### 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 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.

U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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.

Investments may also be made in taxable municipal securities and investment grade, U.S. dollar denominated fixed income securities of non-U.S. developed and emerging market sovereign and corporate issuers.

<sup>1</sup> Diversification does not assure a profit or protect against market loss.

<sup>2</sup> The Bloomberg Barclays U.S. Intermediate Government/ Credit Bond Index is composed of all publicly issued, fixed-rate, nonconvertible, domestic debt in three major classifications: industrial, utility and financial (as well as domestic debt of the U.S. government or any agency thereof). All corporate bonds have a minimum rating of Baa (Moody's) and BBB (Standard & Poor's). This index has an average current maturity of 4.5028 years (average maturity may vary over time) and a final maturity restriction of 10 years. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The index is not managed and not subject to management or brokerage commission. Income from coupon is subject to reinvestment.

## Investment process

# STEP 1

### Interest rate exposure/duration weighting

- Western Asset's investment team comprehensively analyzes a variety of domestic and international macroeconomic factors to establish a duration target.

# STEP 2

### Term structure weighting

- The Firm carefully employs strategies in an attempt to take advantage of changes in the yield curve's shape and shifts in the relationship between short-, intermediate- and long-maturity securities.

# STEP 3

### Sector allocation

- Western Asset believes that value can be added to a portfolio by actively rotating among, and within, different sectors of the bond market. The investment team studies the fundamental factors that influence sector spread relationships.

# STEP 4

### Issue selection

- Using a bottom-up process, the Firm seeks to identify companies that may add value to the portfolio.

## Performance

### Annualized rates of return - gross and net of fees (%) as of December 31, 2020 - PRELIMINARY

	Dec '20	Q4 '20	YTD	1-year	3-year	5-year	7-year	10-year	15-year	20-year
Gov/Corp (gross)	0.21	0.62	6.29	6.29	4.59	3.62	3.20	3.15	4.25	4.46
Gov/Corp (net)	0.08	0.25	4.72	4.72	3.05	2.09	1.67	1.63	2.71	2.92
Bloomberg Barclays U.S. Int. Gov/Credit Index	0.21	0.48	6.43	6.43	4.67	3.64	3.19	3.11	3.91	4.30
FTSE 3-Month U.S. Treasury Bill Index	0.01	0.02	0.58	0.58	1.56	1.16	0.84	0.60	1.16	1.43

### Calendar-year total returns - gross and net of fees (%) ending December 31

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gov/Corp (gross)	6.29	6.90	0.71	2.29	2.07	1.14	3.15	-0.64	4.97	4.94
Gov/Corp (net)	4.72	5.32	-0.78	0.78	0.56	-0.36	1.62	-2.11	3.43	3.39
Bloomberg Barclays U.S. Int. Gov/Credit Index	6.43	6.80	0.88	2.14	2.08	1.07	3.12	-0.86	3.89	5.80
FTSE 3-Month U.S. Treasury Bill Index	0.58	2.25	1.86	0.84	0.27	0.03	0.03	0.05	0.07	0.08

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://www.leggmason.com) for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.**

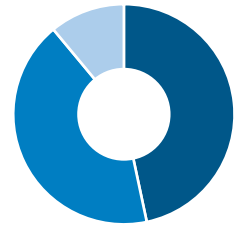
**Fees:** Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 1.5% annual wrap fee, which is the maximum anticipated wrap fee for fixed income portfolios. Actual fees may vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Legg Mason Private Portfolio Group ("LMPPG"), refer to LMPPG's Form ADV disclosure document. Returns reflect the reinvestment of dividends and other earnings.

The investment process may change over time. 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.

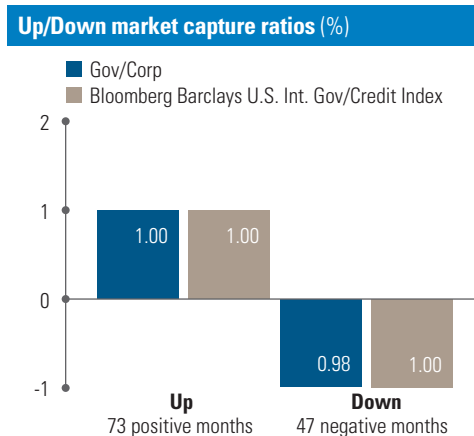
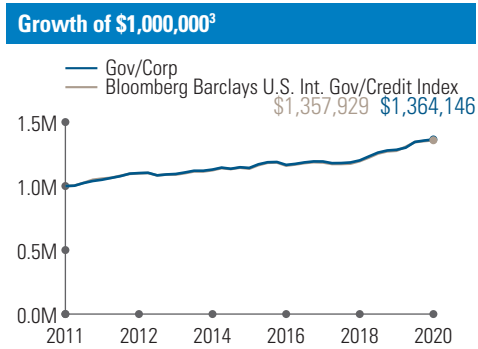
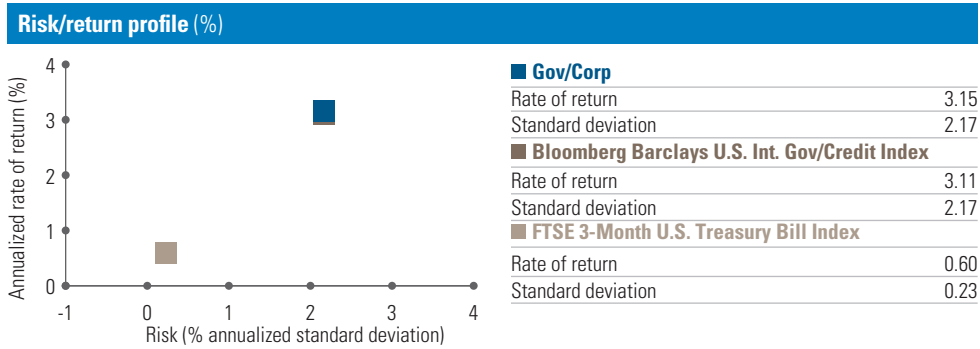
YTD numbers are not annualized. **Past performance is not a guarantee of future results. Please see GIPS® Endnotes for important additional information regarding the portfolio performance shown and for effects of fees.** Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

Portfolio information<sup>1</sup> as of December 31, 2020

Characteristics		Sector weightings (%)	
Average Maturity (Years)	4.29	Treasury	46.68
Average Coupon Rate (%)	2.36	Corporate	42.32
Effective Duration (Years)	3.89	Agency	11.00
Yield to Worst (%)	0.58	Asset-Backed Securities	0.00
		CMO	0.00
		Mortgage-Backed Securities	0.00
		Other	0.00
		Cash	0.00



Performance statistics (gross of fees)<sup>2</sup> — Preliminary (based on 10-year period ended December 31, 2020)



**Modern portfolio statistics**

Alpha	0.12
Beta	0.97
Sharpe ratio	1.16
R-Squared	0.93

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://www.leggmason.com) for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

<sup>1</sup> Source: BondEdge. Portfolio sector weightings and characteristics are for a model portfolio, are for illustrative purposes only and are subject to change. The Model Portfolio represents the Investment Manager's general advice at the date stated above to Gov/Corp clients without restrictions on their accounts. For actual Gov/Corp client accounts, composition and other data shown varied from those shown for Model Portfolio because of factors such as client-imposed restrictions and the timing of actions and withdrawals of funds to and from individual client accounts. Sector weightings and characteristics of individual client portfolios may differ, sometimes significantly, from the weightings shown above. **Yields will fluctuate and are not guaranteed.**

<sup>2</sup> Source: Franklin Resources, Inc.

<sup>3</sup> For illustrative purposes only. Assumes no withdrawals or contributions. These statistics are based on gross-of-fees quarterly composite returns, were calculated assuming reinvestment of dividends and income, and take into account both realized and unrealized capital gains and losses.

Year	Net total return (%)	"Pure" <sup>1</sup> gross total return (%)	Benchmark total return (%)	Gross total 3 Yr. St. Dev. (%)	Benchmark total 3 Yr. St. Dev. (%)	Number of portfolios	Bundled fee portfolios (%)	Internal dispersion (%)	Composite assets (\$mm)	Firm assets (%)
2010	4.35	5.91	5.89	-n/a-	-n/a-	698	100	0.11	415	0.09
2011	3.39	4.94	5.80	2.55	2.59	706	100	0.11	387	0.09
2012 <sup>2</sup>	3.43	4.97	3.89	2.15	2.19	1,692	100	0.15	799	0.17
2013	-2.11	-0.64	-0.86	2.22	2.14	548	100	0.15	698	0.15
2014	1.62	3.15	3.12	1.98	1.96	613	100	0.13	618	0.13
2015	-0.36	1.14	1.07	2.06	2.13	646	100	0.10	446	0.10
2016	0.56	2.07	2.08	2.04	2.26	703	100	0.06	512	0.12
2017	0.78	2.29	2.14	1.97	2.14	668	100	0.10	495	0.11
2018	-0.78	0.71	0.88	1.96	2.12	654	100	0.06	494	0.12
2019	5.32	6.90	6.80	1.98	2.07	654	100	0.07	513	0.11

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, 2018. The verification report is available upon request.

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 does not ensure the accuracy of any specific composite presentation.

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 Limited, authorised and regulated by the Financial Conduct Authority ("FCA"); Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R, holder of the 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; Western Asset Management Company Pty Ltd ABN 41 117 767 923, holder of the Australian Financial Services Licence 303160; and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil, 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 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.

Western Asset – Government/Corporate portfolios are discretionary fixed-income portfolios that offer - to individual and taxable institutional investors - tailored management of U.S. Treasury securities, federal agency securities and investment-grade corporate bonds. These portfolios seek to produce total returns over complete market cycles that exceed appropriate benchmark returns. The portfolios also seek to preserve principal. The composite is comprised of accounts that are separately managed accounts (SMAs) managed in accordance with the strategy with an account minimum of US \$80,000. The composite employs a 10% significant cash flow policy. The composite was created on January 1, 2006.

Effective January 1, 2013, the number of portfolios reflects a change from prior periods due to an aggregation of accounts as reported by one sponsor. For periods prior to 2013, the firm excluded accounts designated by the sponsor as client-restricted.

<sup>2</sup>Effective January 1, 2012 the WA Intermediate Taxable Fixed Income Composite merged with the WA Government/Corporate Composite as they are the same strategy.

For comparison purposes, composite returns are shown against returns of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index. An investor cannot invest directly in an index.

<sup>1</sup>"Pure" gross returns are presented as supplemental information to the net returns. The current fee schedule is 1.50% on all assets. Net returns are calculated by deducting the anticipated maximum annual bundled fee applied on a monthly basis from the "pure" gross monthly return. The bundled fee includes all charges for trading costs, portfolio management, custody, and other administrative fees. Bundled fees may vary across different financial firms and across different accounts based upon account size and other factors. Returns and market values are expressed in USD.

Dispersion is calculated using the asset-weighted standard deviation of annual returns of those portfolios that were included in the composite for the entire year (equal-weighted prior to 2014). 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. Standard deviation is not presented for periods where 36 monthly returns are not available for the composite or the benchmark.

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 and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Please contact Michael Van Raaphorst at 212-601-6211 or Michael.VanRaaphorst@westernasset.com.

**Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.**

Separately Managed Accounts (SMAs) are investment services provided by Legg Mason Private Portfolio Group, LLC (LMPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by one or more of the following Franklin Resources, Inc affiliated subadvisors: Western Asset Management Company, LLC. Management is implemented by LMPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

#### 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 the fund and its benchmark. R-squared at 1.00 implies perfect linear relationship and zero implies no relationship exists.

The **Bloomberg Barclays U.S. Intermediate Government/ Credit Bond Index** is composed of all publicly issued, fixed-rate, non-convertible, domestic debt in three major classifications: industrial, utility and financial (as well as domestic debt of the U.S. government or any agency thereof). All corporate bonds have a minimum rating of Baa (Moody's) and BBB (Standard & Poor's). This index has an average current maturity of 4.5028 years (average maturity may vary over time) and a final maturity restriction of 10 years.

The **FTSE 3-Month U.S. Treasury Bill Index** is an index based upon the average monthly yield of the 90-day Treasury bills. U.S. Treasury bills are secured by the "full faith and credit" of the U.S. government and offer a fixed rate of return. The portfolio composition typically varies from that of the above-noted, unmanaged indices. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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