

WESTERN ASSET MUNICIPAL BOND LADDERS (1-30 YEARS)

Investment overview

The Western Asset Municipal Bond Ladders seek to deliver tax-free income opportunities while preserving capital and reducing interest rate risk by investing in laddered municipal bonds. The strategy invests in a diversified portfolio of credit-monitored investment-grade municipal securities with equally weighted maturities from 1-30 years.

Investment objective

The strategy seeks to maintain a competitive level of tax-free income while preserving principal by investing — and reinvesting — in a well-diversified portfolio of investment-grade municipal 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 municipal bonds with staggered maturities and coupon stream may provide continued opportunities for reinvestment

Key differentiators

Team-managed approach

- Team unites groups of specialists dedicated to different market sectors
- Each group of specialists draws on its distinctive expertise in the bottom-up analysis of its respective sector, to efficiently implement and monitor the portfolios

In-depth bond research

- Looks across sectors and issues to select attractive income opportunities and ensure diversification when reinvesting cash flows

Overseen by a fixed income leader

- A highly regarded proprietary credit research team that selects and monitors
- Over four decades of municipal bond trading, with access to the full inventory of municipal offerings and the ability to purchase quality securities
- Exclusive focus on fixed income management
- Long tenure in managing separately managed accounts in taxable and tax-exempt markets

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.

Fixed income securities are subject to illiquidity risk, which is the risk that securities may be difficult to sell at certain prices when no market participants are willing to purchase the securities at such prices.

For tax-exempt securities, certain investors may be subject to the Federal Alternative Minimum Tax, and state and local taxes may apply. Capital gains, if any, are fully taxable. Depends on individual tax situation. **Please see important tax information.**

State-specific and state-biased portfolios within this Portfolio focus on individual states and are more vulnerable to losses caused by adverse developments in those states than are national portfolios, which diversify investments across multiple states.

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

Investment process

STEP 1

Identify term structure of ladder

Term structure

- Purchase municipal bonds maturing at regular intervals from 1-30 years¹
- 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
- Reexamine 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

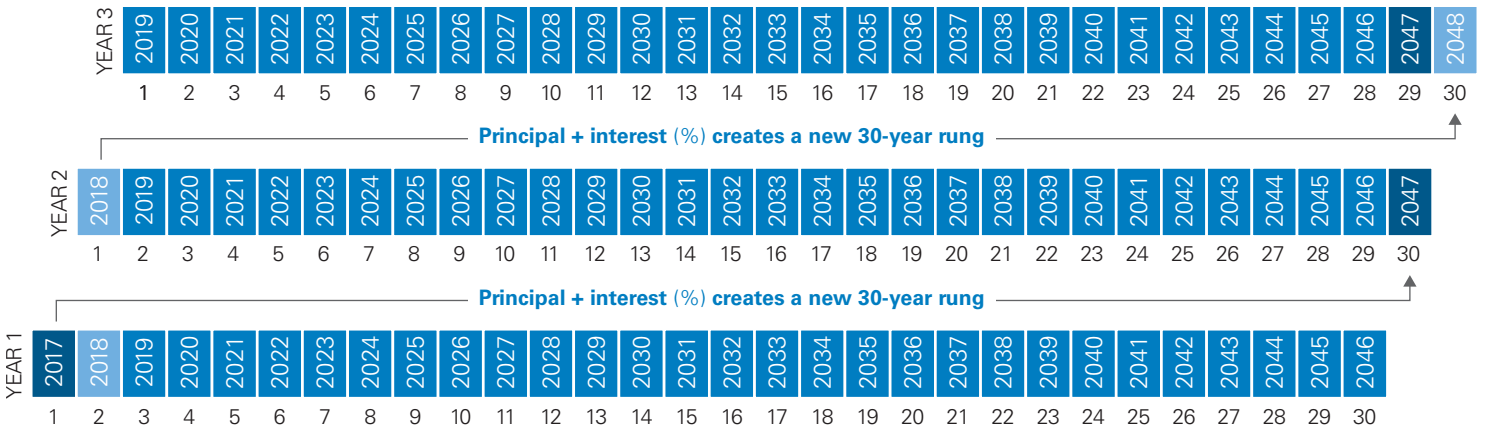
Why invest in a municipal bond ladder?

- Help minimize impact of rising rates by allowing municipal 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

Initial principal investment \$200K (\$6.6K per year x 30 years)

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



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

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.

¹ Other options may be available.

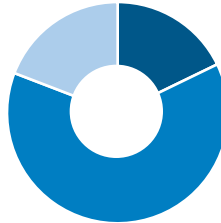
Portfolio information¹ as of September 30, 2019

Characteristics

Effective Duration (Years)	5.74
Yield to Maturity (%)	2.73
Average Maturity (Years)	13.43
Average Coupon Rate (%)	4.18
Yield to Worst (%)	1.86
Current Yield (%)	3.80

Credit Quality (%)²

AAA	17.81
AA	63.02
A	19.17



Maturity (%)

0 - 1	6.90
1 - 2	2.80
2 - 3	2.85
3 - 4	5.93
4 - 5	3.10
5 - 6	5.89
6 - 7	2.69
7 - 8	2.85
8 - 9	3.23
9 - 10	2.98
10 - 11	3.05
11 - 12	3.45
12 - 13	0.65
13 - 14	6.08
14 - 15	6.43
15 - 16	0.00
16 - 17	6.05
17 - 18	2.76
18 - 19	2.83
19 - 20	2.71
20 - 21	0.00
21 - 22	3.75
22 - 23	2.79
23 - 24	2.74
24 - 25	6.09
25 - 26	2.84
26 - 27	1.90
27 - 28	3.84
28 - 29	0.00
29 - 30	2.85
30+	0.00

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. **Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. **Average Maturity** is the average length of maturity for all fixed-rate debt instruments held in a portfolio. The **Coupon Rate** is the annual coupon payments paid by the issuer relative to a bond's face or par value. **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.

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 "Non 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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