

# WESTERN ASSET SHORT-TERM MUNI PORTFOLIOS

## Investment overview

Western Asset Short-Term Muni Portfolios invest in municipal bonds for substantial individual and taxable institutional investors and benchmarks to the Bloomberg Barclays 1-Year Municipal Bond Index<sup>1</sup>. The average maturity of bonds in the portfolio generally ranges between zero and three years, depending on Western Asset's interest rate outlook.

## Investment objective

### Seeks to:

Provide total return over a market cycle, consisting of capital gain (taxable) and income that is exempt from regular U.S. income tax, while aiming for a relatively higher degree of stability and liquidity

## Investment philosophy

### Long-term

Seek out the greatest long-term value by thoroughly analyzing a wide range of sectors of the municipal fixed income market

### Value oriented

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

### Diversified strategies<sup>2</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 Short-Term Muni Portfolios solely focus on investment-grade securities within the municipal bond market. These securities are similar to those represented within the Bloomberg Barclays 1-Year Municipal Bond Index

## Key differentiators

### Team-managed approach

- Utilize a team of municipal bond 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

### Ability to customize the portfolio to meet client constraints including state-specific portfolios

## 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. Please see "Important tax information" on the last page.

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.

<sup>1</sup> The Bloomberg Barclays 1-Year Municipal Bond Index is an unmanaged index composed of national municipal bond issues with a maturity range of 1-2 years. The portfolio composition typically varies from that of the above-noted, unmanaged indices. The index is not managed and is not subject to management or brokerage commissions. Income from coupon is subject to reinvestment. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

<sup>2</sup> Diversification does not assure a profit or protect against market loss.

## Investment process

### STEP 1

#### Interest Rate Exposure/ Duration Weighting

Western'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 the 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 with changing credit characteristics and securities that are undervalued and out of favor due to unusual circumstances.

## Performance

### Annualized rates of return - gross and net of fees (%) as of September 30, 2019 - PRELIMINARY

	Sep '19	Q3 '19	YTD	1-year	3-year	5-year	7-year	10-year	15-year	20-year
Short-Term Muni (gross)	-0.17	0.47	2.26	3.10	1.57	1.22	1.11	1.20	1.70	2.25
Short-Term Muni (net)	-0.29	0.09	1.13	1.58	0.07	-0.28	-0.38	-0.29	0.20	0.74
Bloomberg Barclays Muni. 1 Year Index	-0.21	0.26	1.84	2.64	1.44	1.09	0.99	1.10	1.83	2.28

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Short-Term Muni (gross)	1.67	1.06	0.37	0.71	0.71	0.94	1.27	1.82	0.92	1.73
Short-Term Muni (net)	0.17	-0.44	-1.11	-0.78	-0.77	-0.55	-0.22	0.31	-0.57	0.23
Bloomberg Barclays Muni. 1 Year Index	1.74	0.92	0.30	0.61	0.58	0.80	0.84	1.58	1.17	3.49

**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.**

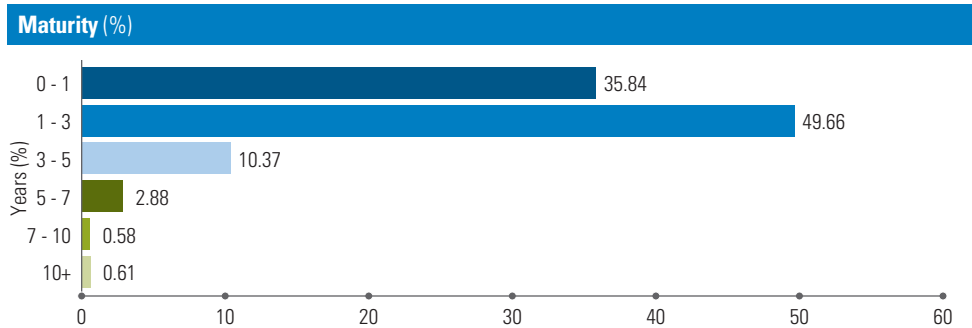
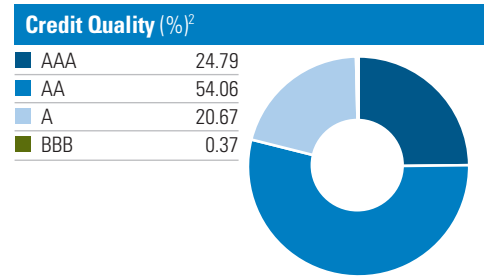
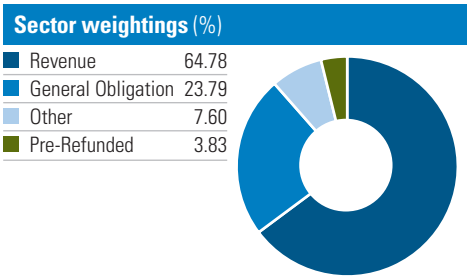
**Fees:** Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 1.5% annual wrap fee, which is the maximum anticipated wrap fee for fixed income portfolios. 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.

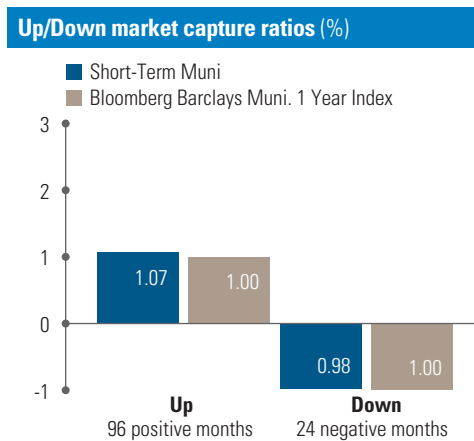
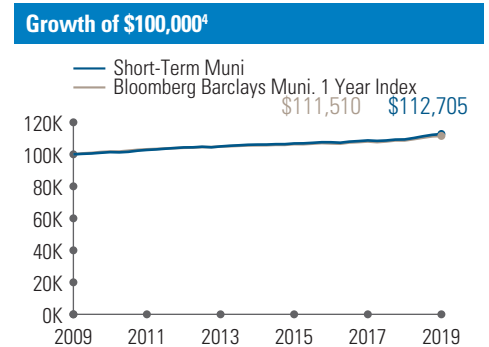
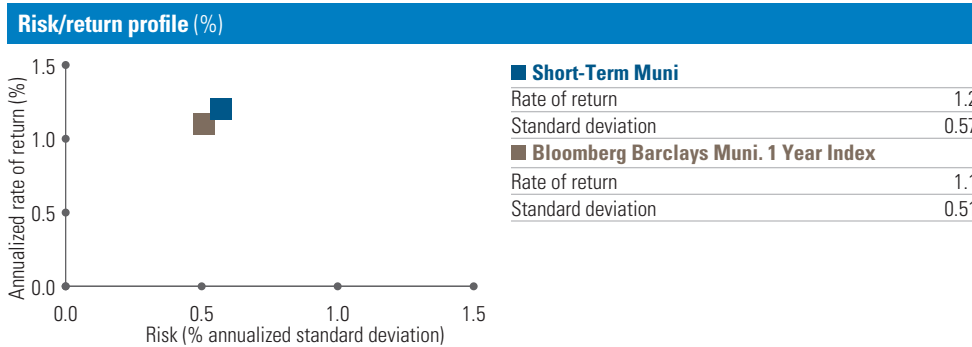
YTD numbers are not annualized. **Past performance is not a guarantee of future results. Please see GIPS® Endnotes for important additional information regarding the portfolio performance shown and for effects of fees.** Management and performance of individual accounts may vary for reasons that include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

## Portfolio information<sup>1</sup> as of September 30, 2019

Characteristics	
Average Maturity (Years)	1.78
Average Coupon Rate (%)	4.49
Yield to Worst (%)	1.29
Yield to Maturity (%)	1.44
Effective Duration (Years)	1.50



## Performance statistics (gross of fees)<sup>3</sup> – Preliminary (based on 10-year period ended September 30, 2019)



Modern portfolio statistics	
Alpha	0.12
Beta	0.97
Sharpe ratio	1.20
R-Squared	0.77

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> Sector weightings and portfolio characteristics are based on the aggregate of individual client portfolios in the Short-Term Muni program composites and are subject to change at any time. Sector weightings and portfolio characteristics of individual client portfolios in these programs 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 or securities listed and should not be used as a sole basis to make any investment decisions. Source: InvestorTools.

<sup>2</sup> 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 a NRSRO.

<sup>3</sup> Source: Legg Mason.

<sup>4</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" 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 (%)	Firm assets (%)
2009	0.23	1.73	3.49	-n/a-	-n/a-	84	100	0.32	124	0.03
2010	-0.57	0.92	1.17	-n/a-	-n/a-	97	100	0.28	47	0.01
2011	0.31	1.82	1.58	0.43	0.60	98	100	0.35	76	0.02
2012	-0.22	1.27	0.84	0.45	0.33	90	100	0.34	69	0.01
2013	-0.55	0.94	0.80	0.53	0.22	24	100	0.12	55	0.01
2014	-0.77	0.71	0.58	0.49	0.16	24	100	0.14	55	0.01
2015	-0.78	0.71	0.61	0.47	0.22	24	100	0.06	55	0.01
2016	-1.11	0.37	0.30	0.48	0.47	26	100	0.09	46	0.01
2017	-0.44	1.06	0.92	0.62	0.64	12	100	0.05	28	0.01
2018	0.17	1.67	1.74	0.70	0.74	13	100	0.03	21	0.00

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 – Short Term Muni portfolios are discretionary fixed-income portfolios that seek total return over a market cycle, consisting of capital gain (taxable) and income that is exempt from regular U.S. income tax, while aiming for a higher degree of liquidity than Current Market Muni portfolios. Depending on Western Asset's interest rate outlook, the average maturity of bonds in Short-Term Muni portfolios generally ranges between zero and three years. The composite is comprised of accounts that are separately managed accounts (SMAs) managed in accordance with the strategy. 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.

For comparison purposes, composite returns are shown against returns of the Bloomberg Barclays U.S. Municipal Bond Index, 1 Year. An investor cannot invest directly in an index.

"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.

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 Legg Mason-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.

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#### Index/Terms and definitions:

**Average coupon** based on the portfolio's underlying holdings, which may differ and are subject to change. Coupon rate is the annual coupon payments paid by the issuer relative to a bond's face or par value.

**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 100 implies perfect linear relationship and zero implies no relationship exists.

The **Bloomberg Barclays 1-Year Municipal Bond Index** is an unmanaged index composed of national municipal bond issues with a maturity range of 1-2 years. The portfolio composition typically varies from that of the above-noted, unmanaged indices. The index is not managed and not subject to management or brokerage commissions. Income from coupon is subject to reinvestment. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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