



Performance

US Bank Loan Composite vs. Morningstar LSTA US Leveraged Loan Total Return USD Unhedged Index

Returns (%) as of 31 Dec 22	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	SI*
Composite (gross)	0.23	-3.87	0.94	2.27	3.00	4.39
Composite (net)	0.12	-4.31	0.49	1.81	2.56	3.96
Benchmark	2.74	-0.60	2.70	3.44	3.89	4.60

Returns (%) as of 31 Dec 21	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	SI*
Composite (gross)	0.97	6.53	5.02	3.84	4.42	4.86
Composite (net)	0.86	6.05	4.55	3.38	3.98	4.43
Benchmark	0.75	5.29	5.81	4.45	4.93	4.89

Source: Western Asset *Since Inception: 01 Oct 03

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.

Performance Review

Western Asset's US Bank Loan composite returned 0.23% gross of fees in 4Q22, underperforming the composite's primary benchmark, the Morningstar LSTA US Leveraged Loan Total Return USD Unhedged Index, which returned 2.74%. For the past 12 months, the composite has returned -3.87% gross of fees versus -0.60% for the benchmark.

The following key factors impacted relative returns during the quarter:

- **Rating positioning** was positive to relative performance mainly due to our modest overweight to BBs.
- **Industry allocation** contributed to relative performance largely due to an underweight to communications and an overweight to transportation.
- **Issue selection** was a detractor to relative performance, led by issuer tilts within consumer cyclical, consumer non cyclical and technology industries.

Discount Margin (3-Year Life)



Source: LSTA. As of 31 Dec 22

Market Review

During the fourth quarter of 2022, risk assets and bond yields traded in a wide range, but ultimately risk assets rose and bond yields were mostly higher as the Federal Reserve (Fed) continued to hike rates. Risk sentiment was boosted by lower than expected inflation prints as well as prospects for a slower pace of rate hikes and an eventual rate pause in 2023. Oil prices fluctuated as global growth expectations adjusted while credit spreads tightened and the S&P 500 rose.

US inflation moderated during the quarter and generally surprised lower versus consensus forecasts, which further reinforced market expectations that inflation has peaked from elevated levels earlier in the year. In year-over-year (YoY) terms, headline Consumer Price Index (CPI) decelerated to 7.1% in November, from 8.2% in September, and was well off the June peak of 9.1%. Core CPI decelerated to 6.0% YoY, down from the 40-year high of 6.6% in September. Other economic data points showed some signs of moderation. Notably in November, the US Purchasing Managers' Index (PMI) for manufacturers contracted for the first time since 2020. US employment data were mixed, as the unemployment rate ticked higher to 3.7% in November from 3.5% in September. Nonfarm payrolls for November saw 263,000 jobs added, which—although it came in above consensus forecasts—was the lowest number of jobs added since April 2021.

As inflation and economic activity showed signs of moderation, Fed officials signaled a need to slow the pace of rate hikes. As had been widely expected, the Federal Open Market Committee (FOMC) hiked the fed funds target rate during the quarter by a total of 125 basis points

(bps)—slowing the pace of rate hikes from 75 bps in November to 50 bps in December—to end at a target range of 4.25%-4.50%. The Fed also released its December Summary of Economic Projections (SEP), which showed some adjustments from its September projections. On balance, the SEP pointed toward a restrictive level for the fed funds rate, declining inflation over the coming year, but also slower GDP growth and higher unemployment. The Fed's dot plot shifted higher from September, with the median FOMC member now expecting that it will be appropriate to hike the fed funds rate further in 2023, to end the year at 5.10%, up from 4.60% projected in September.

Within the bank loan market, spreads tightened by 20 bps in the fourth quarter to L+645 bps, based on the Morningstar LSTA US Leveraged Total Return Index's three-year discounted spread. The yield-to-maturity of the index also rose, ending the quarter at 9.99%. BBs and Bs outperformed the index during the quarter, returning 3.91% and 2.77%, respectively, while the below B- cohort underperformed the index, returning -2.26%. The top performing subsectors were energy and insurance, while the bottom performing subsectors were banking and consumer non cyclical. Loan issuance saw a total of \$44.7 billion during

the fourth quarter (86% higher from the previous quarter) bringing year-to-date (YTD) issuance to \$252.5 billion (-70% YoY), according to JP Morgan. In terms of flows, the fourth quarter saw a retail outflow of -\$11.4 billion (compared to an outflow of -\$15.2 billion in the previous quarter), bringing YTD outflows to -\$11.4 billion (compared to an inflow of \$46.5 billion YoY), according to JPMorgan.

Investment Outlook

Loan valuations improved meaningfully after a substantial rise in yields following the first quarter of 2022. While fundamentals are expected to decline from robust levels as floating-rate interest costs have risen, spreads have widened to levels that are likely in excess of average default rates historically. New issuance of bank loans has been relatively light and steady demand for loans from collateralized loan obligations (CLOs) may provide for some technical support in the bank loan markets. We are maintaining our overweight to consumer sectors that are still recovering from post-pandemic reopening while remaining cautious on certain industries such as chemicals, communications and industries that are tied to housing. We are also finding attractive valuations selectively in CLO tranche investments.

For more information on Western Asset visit our website at www.westernasset.co.jp.

Definition of Terms

Duration is the option-adjusted price sensitivity to a parallel shift in interest rates.

Option Adjusted Spread (OAS) is a measure of expected excess return over the risk-free rates that considered embedded options and possible pre-payments.

Spread Duration is the option-adjusted price sensitivity to the change in option adjusted spread.

Yield to Maturity (YTM) is a bond's long-term yield expressed as an annual rate, taking into account the current market price, par value, coupon interest rate and time to maturity. The calculation assumes all coupons are reinvested at the same rate.

Yield-to-Worst (YTW) is the lesser of yield-to-maturity or yield-to-call across all known call dates.

© Western Asset Management Company, LLC 2023. This publication is the property of Western Asset and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

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.

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 is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorized and regulated by the Financial Conduct Authority ("FCA") (FRN 145930). 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.

US Bank Loan Composite

Composite Inception Date: 10/01/2003 | Composite Creation Date: 03/22/2017

	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	2	10.23%	9.79%	9.76%	5.02%	4.45%	-na-	3,987	0.86%	461,891
2013	3	6.26%	5.84%	5.41%	4.01%	3.80%	-na-	6,093	1.35%	451,632
2014	5	1.03%	0.63%	1.82%	2.34%	2.05%	-na-	6,302	1.35%	466,036
2015	5	-3.11%	-3.49%	0.10%	2.61%	2.07%	-na-	4,536	1.05%	433,747
2016	3	11.35%	10.91%	10.36%	3.79%	2.91%	-na-	4,152	0.99%	419,207
2017	2	3.75%	3.29%	4.32%	3.67%	2.75%	-na-	3,641	0.83%	436,309
2018	1	0.48%	0.03%	0.60%	3.47%	2.95%	-na-	1,096	0.26%	424,136
2019	1	8.25%	7.77%	8.70%	2.68%	2.83%	-na-	1,536	0.34%	455,276
2020	1	0.43%	-0.02%	3.50%	8.34%	9.02%	-na-	1,518	0.32%	479,810
2021	1	6.53%	6.05%	5.29%	8.18%	8.83%	-na-	1,862	0.38%	488,490

Description: The Western Asset US Bank Loan strategy aims to maximize total return and add value through subsector rotation, ratings positioning and security selection, while approximating benchmark risk. The strategy invests in a diversified portfolio of bank loans and at times will take exposure to high-yield when relative value opportunities arise.

Benchmark Description: The current benchmark is the Morningstar LSTA US Leveraged Loan Total Return USD Unhedged Index. Prior to 4/1/2021, the benchmark was the S&P/LSTA Performing Loan Index. This change does not reflect a shift in strategy or investment objective, but rather the new index more appropriately reflects the full universe of investable bank loans.

Base Currency: USD | **Composite Minimum:** No minimum asset size requirement as of 1/1/2020 (previously \$10 million).

Current Fee Schedule: The investment management fee schedule for the separate account is .45 of 1% on the first \$100 million, .30 of 1% on amounts over \$100 million. The investment management fee schedule for the Western Asset Floating Rate High Income Fund LLC, which is a member of the composite, is .45 of 1%. The total expense ratio as of December 31, 2020 for the Western Asset Floating Rate High Income Fund LLC was .53 of 1%.

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 Bank Loan Composite has been examined for the period from January 1, 2017 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 authorized 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 fees, the actual account weighted fees will be used for net-of-fees composite return calculations. Net-of-fees composite return calculations using actual account weighted fees may include fund returns and performance based fee 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. All returns for strategies with inception prior to January 1, 2013 are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

For more information on Western Asset visit our website at www.westernasset.com.

投資一任契約に係る投資顧問料:

米国バンクローン

1億ドル以下の部分:年率0.495%(税抜き0.45%)

1億ドル超の部分:年率0.33%(税抜き0.30%)

最低運用資産規模:5,000万米ドル

上記は、一社で最低運用金額以上の個別契約を締結される投資家向けの標準的な報酬体系です。

有価証券の売買又はデリバティブ取引の売買手数料を運用財産の中からお支払い頂きます。投資信託に投資する場合は信託報酬、管理報酬等の手数料が必要となります。これらの手数料には多様な料率が設定されているためこの書面に記載することはできません。デリバティブ取引を利用する場合、運用財産から委託証拠金その他の保証金を預託する場合がありますが、デリバティブ取引の額がそれらの額を上回る可能性があります。その額や計算方法はこの書面に記載することはできません。投資一任契約に基づき運用財産の運用を行った結果、金利、通貨の価格、金融商品市場における相場その他の指標に係る変動により、損失が生ずるおそれがあります。損失の額が、運用財産から預託された委託証拠金その他の保証金の額を上回る恐れがあります。個別交渉により、一部のお客様とより低い料率で投資一任契約を締結する場合があります。

© Western Asset Management Company Ltd 2023. 当資料の著作権は、ウエスタン・アセット・マネジメント株式会社およびその関連会社(以下「ウエスタン・アセット」という)に帰属するものであり、ウエスタン・アセットの顧客、その投資コンサルタント及びその他の当社が意図した受取人のみを対象として作成されたものです。第三者への提供はお断りいたします。当資料の内容は、秘密情報及び専有情報としてお取り扱い下さい。無断で当資料のコピーを作成することや転載することを禁じます。

過去の実績は将来の投資成果を保証するものではありません。当資料は情報の提供のみを目的としており、作成日におけるウエスタン・アセットの意見を反映したものです。ウエスタン・アセットは、ここに提供した情報が正確なものであるものと信じておりますが、それを保証するものではありません。当資料に記載の意見は、特定の有価証券の売買のオファーや勧誘を目的としたものではなく、事前の予告なく変更されることがあります。当資料に書かれた内容は、投資助言ではありません。ウエスタン・アセットの役職員及び顧客は、当資料記載の有価証券を保有している可能性があります。当資料は、お客様の投資目的、経済状況或いは要望を考慮することなく作成されたものです。お客様は、当資料に基づいて投資判断をされる前に、お客様の投資目的、経済状況或いは要望に照らして、それが適切であるかどうかご検討されることをお勧めいたします。お客様の居住国において適用される法律や規制を理解し、それらを考慮する責任はお客様にあります。

ウエスタン・アセット・マネジメント株式会社について

業務の種類: 金融商品取引業者(投資運用業、投資助言・代理業、第二種金融商品取引業)

登録番号: 関東財務局長(金商)第427号

加入協会: 一般社団法人日本投資顧問業協会(会員番号 011-01319)

一般社団法人投資信託協会