



Fresno County Employees' Retirement Association

April 4, 2018

Frances L. Coombes

Kurt D. Halvorson, CFA



Table of Contents

- I. About Western Asset
- II. Investment-Grade Credit Overview
- III. Portfolio Review
- IV. Investment-Grade Credit Market Review
- V. Appendix

About Western Asset

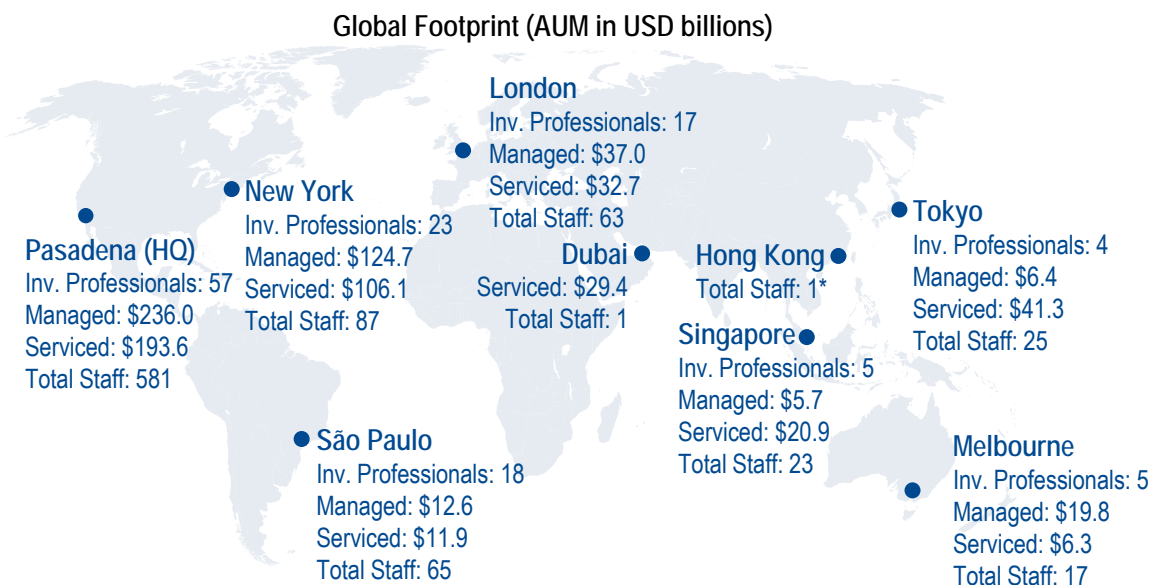
About Western Asset

Western Asset is a globally integrated fixed-income manager, sourcing ideas and investment solutions worldwide.

Western Asset At a Glance	Organizational Pillars	AUM by Sector – Total \$442.2 billion (USD)																		
<ul style="list-style-type: none"> ▪ Founded in 1971. Independent affiliate of Legg Mason since 1986 ▪ Fixed-income value investors ▪ \$442.2 billion (USD) AUM <ul style="list-style-type: none"> – \$376.4 billion (USD) long-term assets – \$65.8 billion (USD) cash and cash equivalent assets ▪ 862 employees 	<ul style="list-style-type: none"> ▪ Clients first ▪ Globally integrated ▪ Team-based ▪ Active fixed-income ▪ Integrated risk management 	<table border="1"> <tr><td>Global IG Corporate</td><td>102</td></tr> <tr><td>Sovereign, Treasuries & Agencies</td><td>81</td></tr> <tr><td>MBS/ABS</td><td>67</td></tr> <tr><td>Cash & Cash Equivalents</td><td>66</td></tr> <tr><td>Emerging Markets Debt</td><td>44</td></tr> <tr><td>Global High-Yield</td><td>27</td></tr> <tr><td>Local Authority & Municipals</td><td>25</td></tr> <tr><td>Global Inflation-linked</td><td>13</td></tr> <tr><td>Other</td><td>17</td></tr> </table>	Global IG Corporate	102	Sovereign, Treasuries & Agencies	81	MBS/ABS	67	Cash & Cash Equivalents	66	Emerging Markets Debt	44	Global High-Yield	27	Local Authority & Municipals	25	Global Inflation-linked	13	Other	17
Global IG Corporate	102																			
Sovereign, Treasuries & Agencies	81																			
MBS/ABS	67																			
Cash & Cash Equivalents	66																			
Emerging Markets Debt	44																			
Global High-Yield	27																			
Local Authority & Municipals	25																			
Global Inflation-linked	13																			
Other	17																			

Western Asset's Deep Global Integration Allows Us to Source Investment Ideas and Investment Solutions Across Regions

Investment Management	<ul style="list-style-type: none"> ▪ 129 investment professionals on five continents and in seven offices ▪ 22 years of average experience ▪ 34 portfolio and quantitative analysts in portfolio operations
Client Service & Marketing	<ul style="list-style-type: none"> ▪ 171 staff dedicated to client service ▪ Specialized teams to meet individual client needs
Risk Management & Operations	<ul style="list-style-type: none"> ▪ Independent risk management function with 33 professionals including 12 PhDs ▪ 399 staff dedicated to globally integrated operations



Source: Western Asset. As of 31 Dec 17
 *Splits time between Hong Kong and Singapore offices

Investment Solutions

Western Asset offers a full range of fixed-income products that can be tailored to meet the needs of our clients.

Identifying Investment Solutions to Align With Client Objectives and Risk Tolerances

- Protect from rising rates
- Protect from inflation
- Preserve capital
- Diversify globally
- Hedge liabilities
- Enhance income
- Generate tax-free income
- Generate total return

Selected Investment Strategies

Broad Market

- Global Core/Core Full Discretion
- Regional Core/Core Full Discretion
- Regional Intermediate
- Global Sovereign

Long Duration / LDI

- Long Duration
- Long Credit
- Liability-Driven Investing

Inflation-Linked

- US TIPS
- Global Inflation-Linked

Credit

- Global Credit
- Investment-Grade Credit
- Global High-Yield
- US Bank Loans
- US High-Yield
- Short-Duration High Income

Mortgage / Asset-Backed

- Agency Mortgage-Backed Securities
- Structured Products
- Diversified Loan Opportunities
- MBS Opportunities

US Municipals

- Short Duration Muni
- Intermediate Muni
- Managed Muni

Unconstrained / Alternatives

- Macro Opportunities
- Total Return Unconstrained
- Global Total Return
- Multi-Asset Credit
- Global Multi-Sector
- Tail Risk Protection

Emerging Markets Debt

- EMD Diversified
- EMD Local Currency Sovereign Debt
- EMD USD Corporate Credit
- EMD USD Sovereign
- EMD Total Return

Liquidity / Short Duration

- Money Market
- Enhanced Cash
- Limited Duration

About Western Asset – Clients

Committed to excellence in client service

Representative Client List

Corporate	Public / Gov. / Sovereign Wealth	Multi-Employer / Unions	Eleemosynary
<p>American Cast Iron Pipe Company ArcelorMittal USA Inc. Arconic Inc. AT&T Services, In. Atmos Energy Corporation Bayer Corporation Campbell Soup Company Caterpillar Inc. Chrysler LLC Clark Enterprises, Inc. CNH Global N.V. Consolidated Communications Holdings, LLC Consolidated Edison Company Of New York, Inc. Consolidated Rail Corporation Deutsche Bank Americas Holding Corp. First Data Corporation Graphic Packaging International Incorporated Hawaiian Telcom Highbury Pacific Capital Corp. International Paper Company John Lewis Partnership Pensions Trust Kennametal Lennox International, Inc. Meijer, Inc. Nestle USA, Inc. Nisource, Inc. NXP Semiconductor, Inc. Orbital ATK PCS Administration (USA), Inc Pensioenfonds Horeca & Catering Southern California Edison Stichting Pensioenfonds DSM-Nederland Thomson Reuters Unisys Corporation Verizon Westlake Chemical Corporation Whirlpool Corporation XPO Logistics</p>	<p>Anne Arundel (MD) Retirement Systems Arkansas Local Police and Fire Retirement System California State Teachers' Retirement System City of Grand Rapids City of Orlando City of Phoenix Employees' Retirement System compenswiss East Bay Municipal Utility District ERS of the City of Baton Rouge & Parish of E. BR ERS of the State of Rhode Island Fife Council Pension Fund Fresno County Employees' Retirement Association Georgia Municipal Association Gloucestershire County Council Government of Bermuda Public Funds Hampshire County Council Indiana State Treasurer's Office Iowa Public Employees' Retirement System Kansas Public Employees Retirement System LA County Employees Retirement Association Louisiana Sheriff's Pension & Relief Fund Marin County Employees' Retirement Association Minnesota State Board of Investment Ohio Police & Fire Pension Fund Oklahoma City Employee Retirement System Orange County Transportation Authority Oregon Investment Council Public Employee Retirement System of Idaho Public School Teachers' Pension and Retirement Fund of Chicago Salt River Project Agricultural Improvement and Power District School Employees Retirement System of Ohio State of Ohio Bureau of Workers Compensation Surrey County Council Tennessee Valley Authority Ventura County Employees' Retirement Association Washington Metro Area Transit Authority Wichita (KS) Retirement Systems Wyoming Retirement System</p>	<p>1199SEIU Health Care Employees Pension Fund Alaska Electrical Trust Funds Austin Firefighters Relief & Retirement Fund Automotive Machinists Pension Trust Boilermaker Blacksmith National Pension Trust Carpenters District Council of Kansas City Construction Industry Laborers Directors Guild of America-PPHP Heavy & General Laborers' Locals 472/172 IBEW Local 25 IBEW Local No. 9 Iron Workers Local #11 Benefit Funds IUOEE Construction Ind Ret Plan, Locals 302 and 612 Line Construction Benefit Fund National Asbestos Workers National Education Association of the United States New England Healthcare Emp Union, 1199, AFL-CIO New Jersey Transit Operating Engineers Local #428 Trust Funds Pacific Coast Roofers Retail Wholesale & Department Store Union S. Nevada Culinary & Bartenders Pension Trust Fund UA Union Local No. 290 Plumber, Steamfitter & Shipfitter Industry Pension Trust UFCW Union Local 919 W. Washington Laborers Employers Pension Trust</p>	<p>Abilene Christian University American Academy in Rome Baha'i World Centre Commonfund Communities Foundation of Texas Domestic & Foreign Missionary Society ECUSA Glass—Glen Burnie Foundation Saint Louis University Strada Education Network, Inc. Texas Presbyterian Foundation The Diocese of Allentown The Donald B. and Dorothy L. Stabler Foundation The University of Iowa Center for Advancement United Negro College Fund University of Southern California University of Wisconsin Foundation Wallace H. Coulter Foundation Washington State University</p>
			Insurance
			<p>American Contractors Insurance Group Anthem, Inc. Blue Cross Blue Shield of Massachusetts Capital BlueCross Catalina Holdings (Bermuda) Ltd Great-West Life & Annuity Insurance Company Health Care Service Corporation Oil Investment Corporation Ltd.</p>
			Sub-Advisory
			<p>Asset Management One Co., Ltd. (AMOne) AXA Contassur GuideStone Capital Management, LLC Legg Mason, Inc. Morgan Stanley Russell Investment Group SEI Investments Corporation Sumitomo Mitsui Asset Management Company, Limited (Institutional) Tokio Marine Asset Management Co., Ltd. (Retail)</p>
		Healthcare	
		<p>Ascension Investment Management Baptist Healthcare System, Inc. Baylor Scott & White Holdings Catholic Health Initiatives CHRISTUS Health Gundersen Health System Holy Name Medical Center Kaiser Permanente LCMC Health NorthShore University HealthSystem Sisters of Charity of St. Augustine Health System, Inc. St. George Corporation</p>	

As of 28 Feb 18. Please see the Representative Client List Disclosure in the Appendix for more information. All have authorized the use of their names by Western Asset for marketing purposes. Such authorization does not imply approval, recommendation or otherwise of Western Asset or the advisory services provided.

About Western Asset

Public/Multi-Employer Channel Update

December 31, 2017

Business Update

Assets under management *(as of 31 Dec 17)*

- Total global Public Fund/Multi-Employer AUM of \$36.6 billion (USD)
 - \$32.1 billion (USD) Public Fund assets
 - \$4.5 billion (USD) Multi-Employer assets

Client solutions/conversations

- Attractive opportunities in fixed-income
 - Macro Opportunities
 - Multi-Asset Credit
- Retirements
 - Portfolio Manager Carl L. Eichstaedt, CFA — March 2019
 - Chief Risk Officer Kenneth J. Winston, PhD — December 2018

WISER (Western Information System for Estimating Risk)

- Proprietary risk system
- 700 portfolios analyzed daily
- 110,000 securities evaluated against 920 risk factors
- 35,000 of these securities are held in Western portfolios

Upcoming client seminars

- London (June 2018)
- Pasadena (October 2018)

Notable Communications

Noteworthy publications (available at www.westernasset.com)

- The Western Asset Approach to Unconstrained Investing: A Reprise by CIO Ken Leech
- Emerging Markets Local Debt: A Paradigm Lost? by Chia-Liang Lian, CFA
- Multi-Asset Credit (MAC): 7th Anniversary Edition by Deputy CIO Michael C. Buchanan, CFA

Webcast (available at www.westernasset.com)


- Market & Strategy Outlook with CIO Ken Leech (January 2018)

Media appearances

- December 29, 2017: Bloomberg TV “Real Yield”: Fixed Income Markets, Julien A. Scholnick, CFA
- December 22, 2017: Bloomberg.com: Profile on CIO Ken Leech
- December 14, 2017: CNBC, Power Lunch: Outlook for Bonds, John L. Bellows, PhD, CFA

Follow us on social media

 @westernasset

 Western Asset Management

Relationship Summary

February 28, 2018

Fresno County Employees' Retirement Association	
Portfolio Inception	May 2005
Market Value	\$207,868,348
Mandate	US - Credit IG*
Investment Objective	Exceed the return of the Index over the long term (5 years).
Benchmark	Bloomberg Barclays U.S. Credit
Duration	(+/-) 10% of the Benchmark
Alpha Target	50 bps
Tracking Error Budget	100 bps
Diversification	Min 95% investment grade (Barclays Method); Max 20% in Non-USD securities (fully hedged back to USD); Max 25% in global sovereign bonds (ex UST and Agency bonds); Max 5% per issuer, at time of purchase

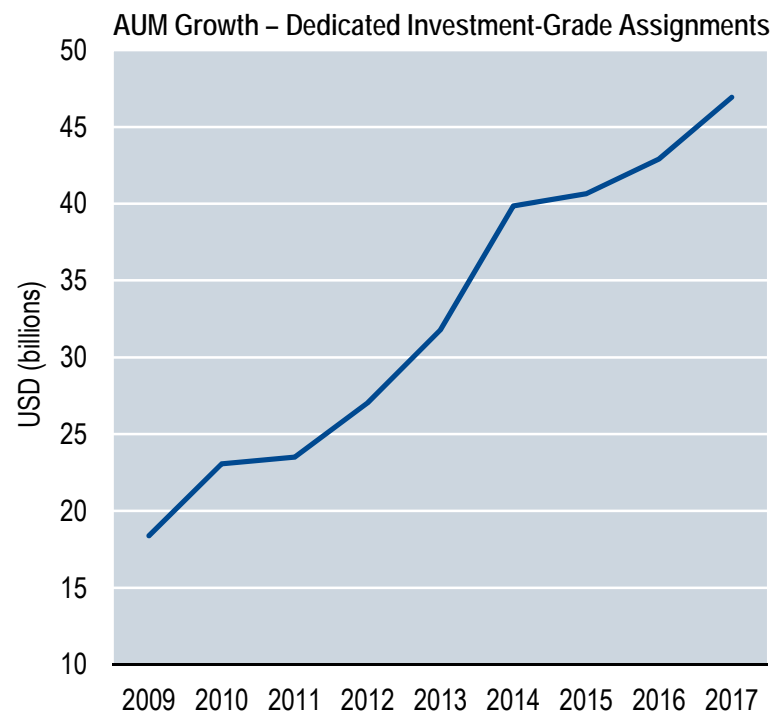
**Mandate changed from US Core Plus to UG Credit IG effective September 2014.*

Investment-Grade Credit Overview

Western Asset Credit Assets Under Management

December 31, 2017

Investment-Grade Credit	\$108.67 billion
▪ 89 US Investment-Grade Credit Assignments	\$39.93
▪ 33 Global & Non-US Credit Assignments	\$6.98
▪ Broad Market Assignments	\$61.76
High-Yield	\$16.88
Bank Loan	\$9.89
Emerging Market	\$11.44
Total	\$146.88



*Assets under management by Western Asset and its supervised affiliates, in USD (billions).
Data may not sum to total due to rounding.*

Credit-Only Philosophy and Product Description

Philosophy

- We believe the ability to integrate superior fundamental credit research with accurate relative-value analysis will generate relative outperformance over a market cycle when proper risk controls are applied

Objective

- Seek to produce consistent excess returns

		Target Alpha	Target Tracking Error	Duration Target	Corporate	Governments	High-Yield
Credit	Buy and Maintain	Yield Target	N/A	← Client Specific →			
	Standard	50-60	100-120	+/- 5%	75%-100%	0%-25%	<5%
	Full Discretion	100-125	200-250	+/- 10%	75%-100%	0%-25%	0%-20%

Based on assignment, Western Asset has the ability to manage credit portfolios with greater/lesser risk tolerance depending on client's objectives

Global Credit Platform

By Region



As of 31 Jan 18

Global Credit Team

	S. Kenneth Leech (41 yrs) – Chief Investment Officer		Michael C. Buchanan, CFA (28 yrs) – Deputy Chief Investment Officer	
Portfolio Managers	Investment-Grade Credit Ryan K. Brist, CFA (25 yrs) – US Matthew D. Jackson (16 yrs) – UK Craig Jendra, CFA (22 yrs) – Australia Blanton Keh, CFA (18 yrs) – US Hiroyuki Kimura (31 yrs) – Japan Anthony Kirkham, CFA (28 yrs) – Australia Annabel Rudebeck (19 yrs) – UK	High-Yield Credit/Bank Loans Michael C. Buchanan, CFA (28 yrs) – US Ian R. Edmonds (28 yrs) – UK Christopher N. Jacobs, CFA (30 yrs) – US Walter E. Kilcullen (21 yrs) – US Christopher Kilpatrick (21 yrs) – US Timothy J. Settel (25 yrs) – US Damon Shinnick, CFA (19 yrs) – Australia	Emerging Markets Credit Chia-Liang Lian, CFA (25 yrs) – US Sergio Evangelista (29 yrs) – Brazil Mark A. Hughes, CFA (20 yrs) – US Swee-Ching Lim (19 yrs) – Singapore Kevin Ritter, CFA (20 yrs) – US	Municipals Robert Amodeo, CFA (31 yrs) – US Charles Bardes (33 yrs) – US David T. Fare, CFA (31 yrs) – US Barbara Ferguson (33 yrs) – US John C. Mooney, CFA (31 yrs) – US
Research	Sebastian Angerer (9 yrs) – UK Financial Institutions Nathalie Cuadrado, CFA (18 yrs) – UK Industrials Ian Justice (20 yrs) – UK Infrastructure/Property/Structured Corporates Rene Ledis (25 yrs) – US Basic Industries/Utilities/Energy Yasuyuki Mochizuki (19 yrs) – Japan Credit Analyst Miguel Molina (9 yrs) – UK European Retail, Consumer Products/Services Paul S. Olsen* (35 yrs) – US Financial Institutions DeAndre L. Parks, CFA (25 yrs) – US Healthcare/Consumer Products/Retail Sean Rogan (29 yrs) – Australia Credit Analyst Ivor Schucking (27 yrs) – US Financial Institutions Davis Smith (29 yrs) – US Communications Constantin T. Wolf (16 yrs) – UK Credit Analyst	Michael T. Borowske (17 yrs) – US High-Yield Autos, Industrials, Gaming/Leisure, Utilities J. Gibson Cooper, CFA (31 yrs) – US Exploration & Production, Oil Field Services, Midstream, Refining, Chemicals William Cullinan (20 yrs) – US Technology, Paper, Packaging Ruchi Gupta (20 yrs) – UK European High-Yield Credit John C. Hwang (17 yrs) – US Structured Credit Michael S. Kim (17 yrs) – US Healthcare, Pharmaceuticals, Homebuilding, Building Products, Broadcasters Araceli M. Sibley (26 yrs) – US Consumer Products, Entertainment, Restaurants, Consumer Services, Textiles Suzanne M. Trepp, CFA (28 yrs) – US Aerospace/Defense, Transportation, Retail, Food & Beverage, Tobacco Florent Vallespir, CFA (25 yrs) – UK European High-Yield Credit	Daniel Araujo (34 yrs) – Brazil Banking, Insurance, Telecom Adriano Casarotto (22 yrs) – Brazil Capital Goods, Chemicals, Energy, Metals & Mining, Paper & Forest, Infrastructure Kevin Chang, CFA (18 yrs) – US Emerging Markets Credit Marcos Dal Collina (33 yrs) – Brazil Education, Health Care, Specialized Consumer Services, High Yield Patrick Conrad (21 yrs) – Brazil Brazil and Latin American Corporates Matthew Graves, CFA (13 yrs) – US Emerging Markets Credit Wontae Kim (7 yrs) – Singapore Asian (ex-Japan) Credit Caio Magano (17 yrs) – Brazil Auto Components, Transportation, Utilities Willian Murayama (14 yrs) – Brazil Securitization Jie Peng, CFA (13 yrs) – Singapore Asian (ex-Japan) Credit Alex Tanaka (18 yrs) – Brazil Building Products, Homebuilding, Real Estate Broker, Retailing	Judy Ewald (35 yrs) – US Health Care, Higher Education, Housing, Pre-Refunded, Tax Exempt Structured Michael Linko (26 yrs) – US Airports, Bridges and Tunnels, Mass Transit Toll Roads Bud Littman (25 yrs) – US Misc High-Yield, Public Facilities, Power, Special Assessment Districts Kathryn L. Montgomery, CFA (11 yrs) – US Airport Revenue, Financial Institutions Higher Education, Ports Thea Okin (36 yrs) – US Assisted Living, Charter Schools, Nursing Homes, Power, Water & Sewer Frederick Poon (18 yrs) – US Health Care, Industrial Revenue, Solid Waste, Tobacco
Trading	Daniel C. Alexander, CFA (14 yrs) – US Oberto Alvarez (25 yrs) – US Anthony Francis (13 yrs) – Australia Kurt D. Halvorson, CFA (17 yrs) – US Edward T. Ma, CFA (16 yrs) – US Chetna Mistry (21 yrs) – UK Molly Schwartz, CFA (14 yrs) – US	Sophala Chhoeng (12 yrs) – US Brandon C. Jacoby, CFA (16 yrs) – US	Wilfred Wong, CFA (17 yrs) – US Desmond Fu (13 yrs) – Singapore	Joseph Genco (25 yrs) – US
Portfolio Analysts	Lawrence Daly, CFA (19 yrs) – Australia Lu Hou, CFA (10 yrs) – US Jean Lee, CFA (13 yrs) – UK Bret Robertson, CFA (10 yrs) – US	Brendan A. Bowman, CFA (13 yrs) – US Quentin Lafosse (11 yrs) – UK	Andy Song (13 yrs) – US Kevin X. Zhang (5 yrs) – US	David Curry (11 yrs) – US Amish Dalal (12 yrs) – US Maria Pacifico (11 yrs) – US Mindy Tran, CFA (16 yrs) – US
Product Specialists	James J. So, CFA (22 yrs) – US Catherine L. Matthews (31 yrs) – UK Global Products	Thomas V. McMahon (39 yrs) – US	Steven T. Saruwatari, CFA (24 yrs) – US	

As of 28 Feb 18

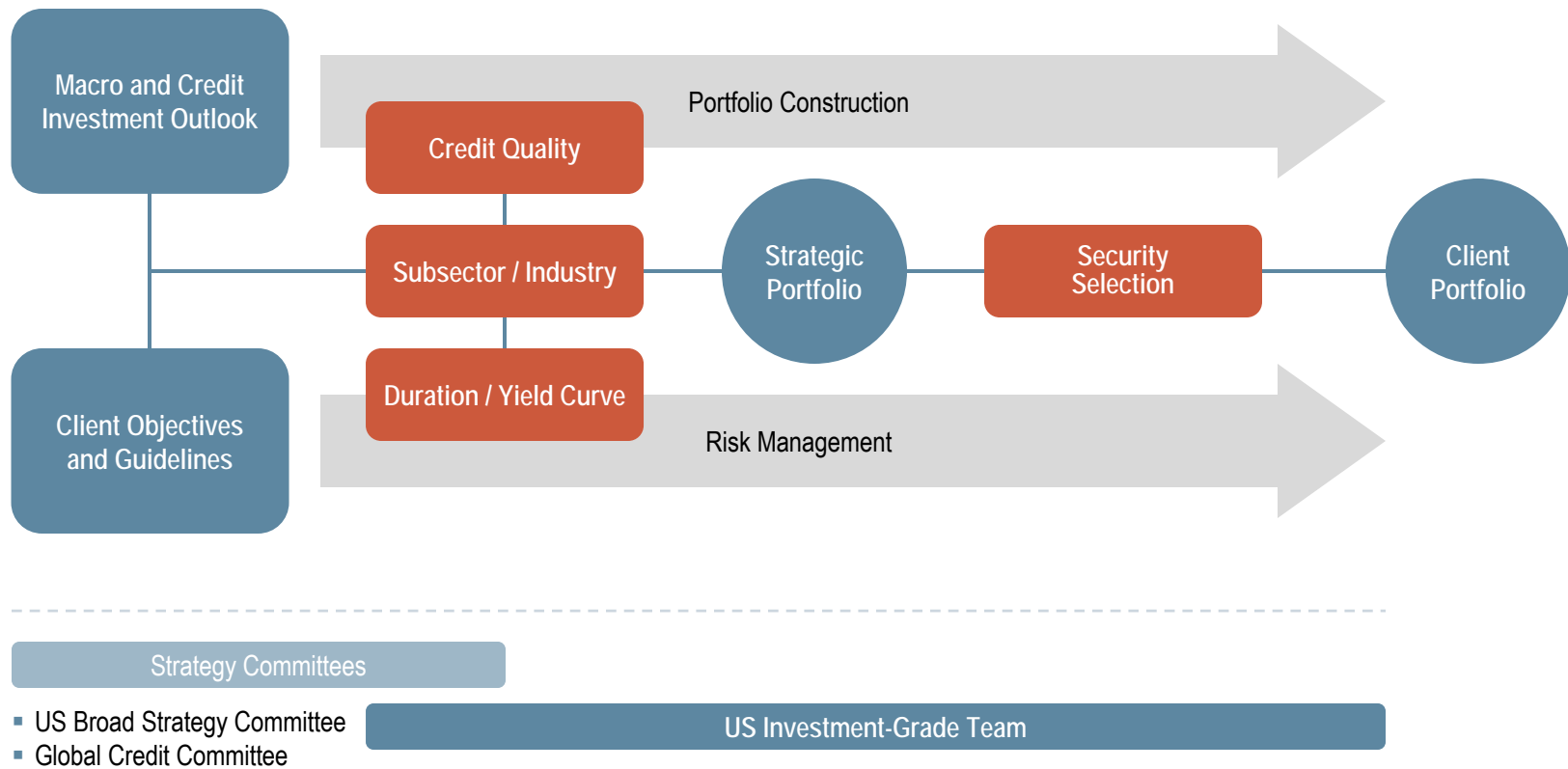
*Dual responsibilities, shared with investment-grade and municipals team

Group heads

Investment Process

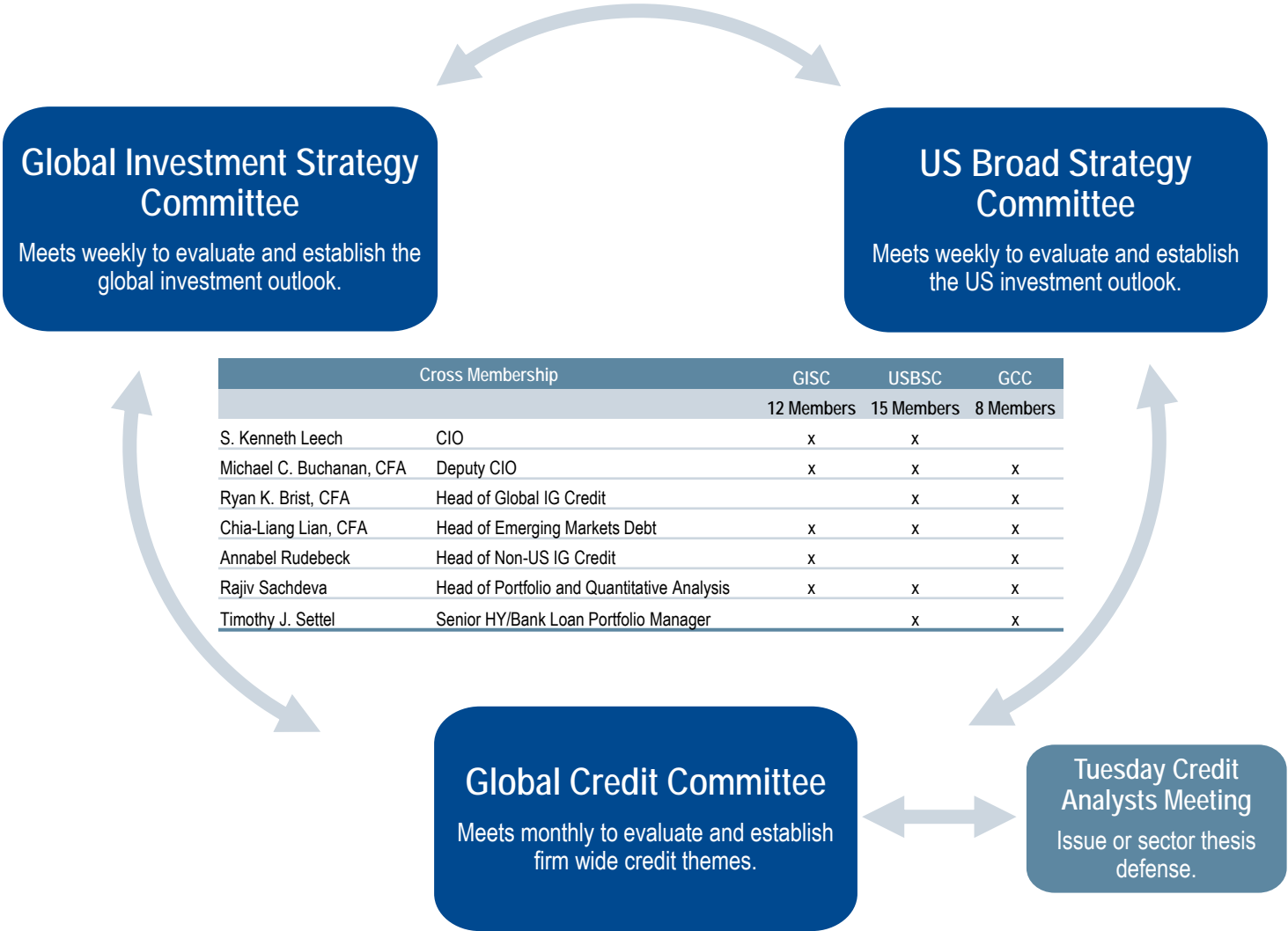
Our time-tested investment process is designed around our value philosophy and our team-based approach.

US Investment-Grade Investment Process and Team Interaction



Continual Feedback Between Top Down and Bottom Up Views

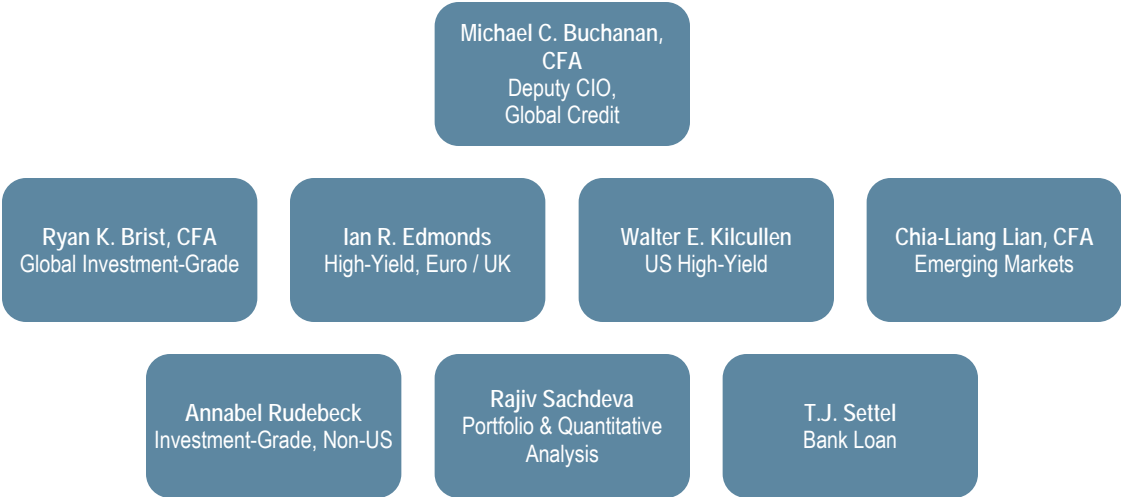
Cross Membership in Key Committees Promotes Consistency Across Strategies



Global Credit Committee

The Global Credit Committee sets the overall themes for the Firm's credit exposures.

Global Credit Committee



- Committee meets monthly to discuss, debate and ultimately determine overall firm wide credit themes
- Topics include comprehensive assessment regarding outlook for credit, as well as relative-value analysis across all credit asset classes, industry biases and, at times, specific issuer review
- Evaluates risk factors and potential scenarios. Sets the risk tone for credit investment strategies

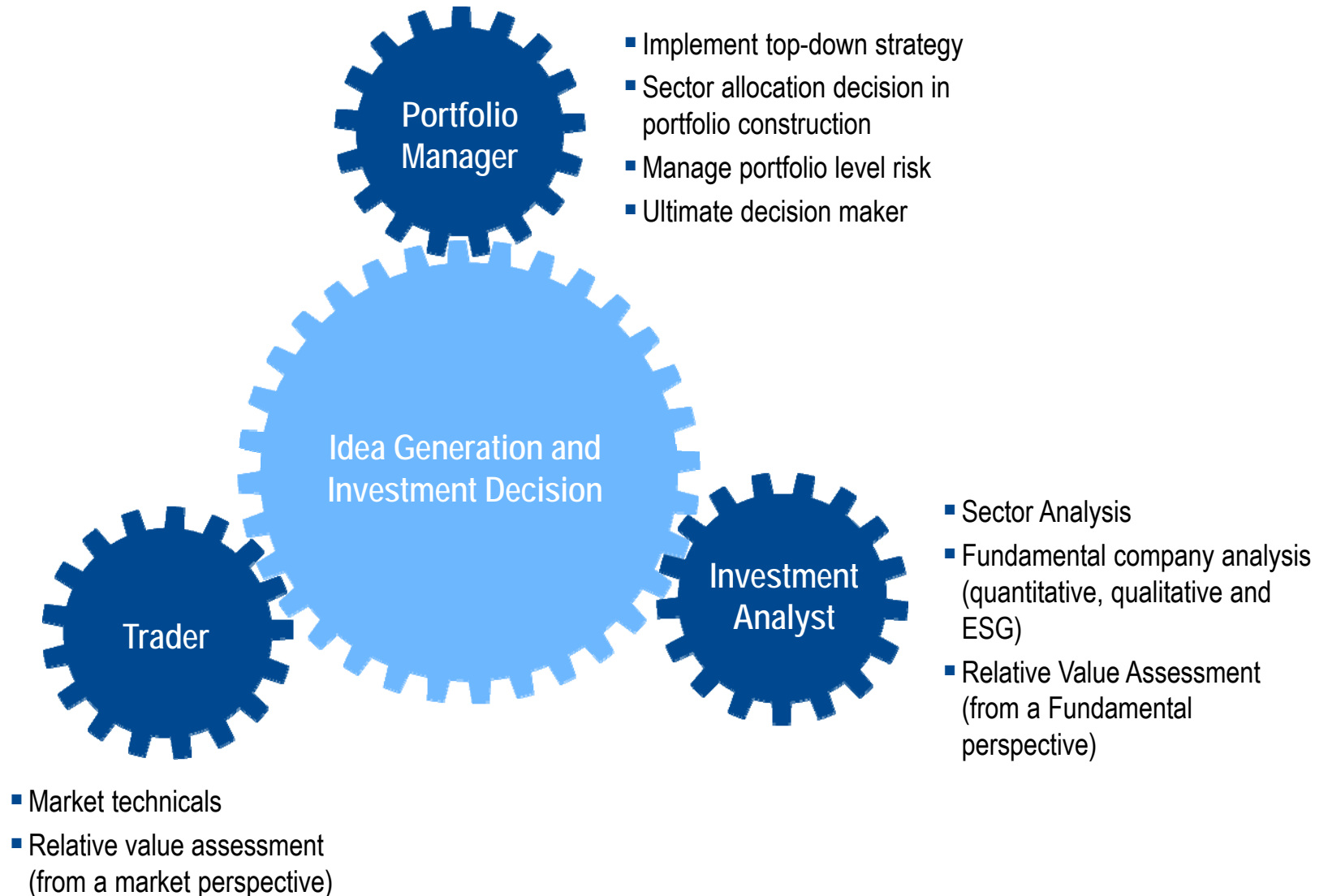
Global Credit Committee – Views on Credit Asset Class

	Weight Rating	Quality Rating	Comments
Credit Overview	3	B	<ul style="list-style-type: none"> Corporate credit fundamentals remain healthy. Conservative balance sheet oversight remains intact. We expect earnings growth to remain favorable led by top line growth while margins could feel pressure from labor and input costs While it is difficult to infer that credit valuations are cheap, we believe they represent fair value and would not hesitate to add on pullbacks. We believe there is meaningful dormant demand for credit at cheaper valuations due to the supportive fundamental backdrop We believe active managers should outperform passive given distortions created by ETFs (an increasing percentage of inflows are directed into ETFs, which ultimately reinvest in the same benchmark issues) Secondary liquidity is becoming increasingly concerning. While new issue demand has been robust and evidence of ample demand, secondary trading is limited and concentrated in the largest issues
US HY	3	B	<ul style="list-style-type: none"> In general, corporate fundamentals remain solid as seen in USHY 4Q17 earnings; however, we recognize that some deterioration resides in select subsectors. Prudent issue selection remains crucial as the margin for error is minimal Opportunities exist in the secondary market today as recent primary issuance in bellwether names has re-priced risk on a technical basis; strained trading liquidity persists in both directions Valuations have cheapened marginally with BBs underperforming other segments, resulting in potentially better entry points given underlying fundamentals and the favorable economic backdrop for credit markets
Non-US HY	2	C	<ul style="list-style-type: none"> Credit fundamentals still positive, but new issue leverage trends increasing Technical still positive (net supply low). However, mutual fund outflows persist so markets are seeing two-way flow Market participants becoming more concerned over future capital flows around ECB policy path; remains supportive for now Valuations less expensive but volatility and dispersion increasing (UK consumer/retail and European telecoms under pressure) Continue to prefer B rated issues via primary and select below par secondary market opportunities
US IG	2	B	<ul style="list-style-type: none"> Corporate fundamentals continue to be strong across the majority of sectors with tax reform as an added tailwind. Leverage in challenged sectors (telecom/retail) is elevated and warrants caution Overall market technicals remain very positive; inflows appear steady coupled with lower supply due to repatriation/tax reform We think valuations in investment-grade credit are fair, (credit index back to +100) opportunity set is increasing with near term widening in risk premiums
Non-US IG	3	C	<ul style="list-style-type: none"> Fundamentals and technicals underpin optically tight valuations Speculation over near-term path of ECB policy key in 2018 Bias to financials over non-financials. Favor issuers not included in the ECB purchase program
Bank Loans	4	B	<ul style="list-style-type: none"> Loans continue to be in high demand due to rising LIBOR rates (2.13% for 3 month LIBOR), strong fundamentals, and demand from CLOs ramping new platforms We continue to upgrade the quality and positioning of our portfolio. We now have an underweight to the volatile energy servicing sector, the merchant power producing sector, and the CCC ratings category We continue to find loans relatively attractive given the expected rise in LIBOR rates, strong fundamentals, and anticipated low default rates. We would be more optimistic on loans, but we recognize that upside is limited given over 70% of the market is trading above 100
CEMBI	3	B	<ul style="list-style-type: none"> Despite historically tight valuations, we remain constructive on select EM corporates currently benefiting from resurgent sovereign fundamentals and conservative balance sheet management We continue to view the EM new issue calendar as the best way to selectively allocate to the sector, with local currency debt and frontier sovereigns available as higher-yielding alternatives

As of 09 Mar 18. Ratings shown should not be viewed as a proxy to any rating provided by a Nationally Recognized Statistical Rating Organization. Weight ratings are denoted 1 to 5. The scale is formulated in such a way that 5 is given to credit asset classes we feel offer the most compelling risk/reward opportunities and 1 is assigned to those credit asset classes where Western Asset sees little investment opportunity. Quality ratings indicate within an asset class where Western Asset believes investment opportunities do or do not exist and are denoted by A, B or C. The scale is formulated in such a way that A represents the highest-rated issuers and C represents the lower-rated issuers.

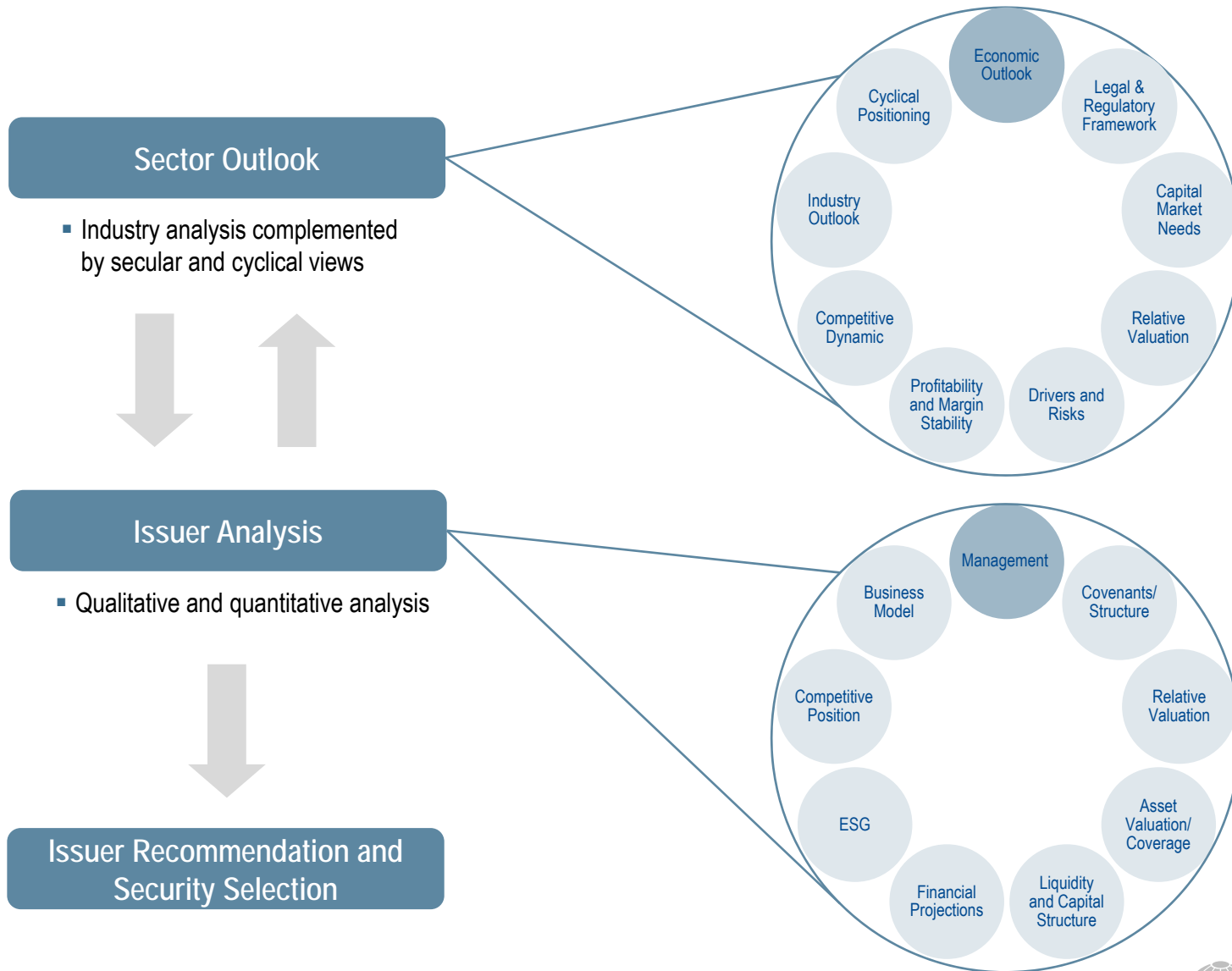
Idea Generation

A Three-Pronged Team Approach



Sector Analysis: Top-Down Outlook Influences Sector Views

Issuer Analysis: Bottom-Up Research Is Our Core Competency



Sell Discipline and Willingness to Avoid Participation

Revised credit opinion

- Relevant change to our original premise that affects our fundamental valuation

Target valuation

- Security meets/exceeds our relative value target

Avoiding the “losers” is as important as investing in the “winners”

- Risk associated with owning or holding the security does not justify the expected return

Material price change up or down will trigger a full team credit review

Investment-Grade Credit Portfolio Construction

Top-Down

Portfolio Construction		Return Characteristic	Idea Generation	Investment Criteria	Holding Period	Recent Examples
Portfolio	Opportunistic 5%–15%	Price	Trading ✓ Research Portfolio Manager	Liquidity Imbalance	Short-Dated	Subordinated issue (CoCos) September New Issue Calendar
	Under Valued 25%–35%	Price and Income	Trading Research ✓ Portfolio Manager	Upgrade/ Downgrade	Intermediate	Voya (ING USA) Anadarko (APC) Pernod (Xover) European subordinate paper Verizon
	Core Holdings 50%–70%	Income	Trading ✓ Research ✓ Portfolio Manager ✓	Stable Holding	Longer-Dated	Citigroup (\$150 B) Bank of America (\$150 B) GE (\$243 B) Ford (\$67 B) Anheuser-Busch (\$180 B) Eaton Corp. (\$32 B)

Risk Management

Areas of Focus

Market & Credit Risk Committee

Strategy and portfolio reviews

Dispersion analysis

Counterparty risk exposures (dollar-weighted, risk-weighted)

Liquidity analysis—portfolios tiered by liquidity class

Risk dashboards

Prediction/outcome analysis

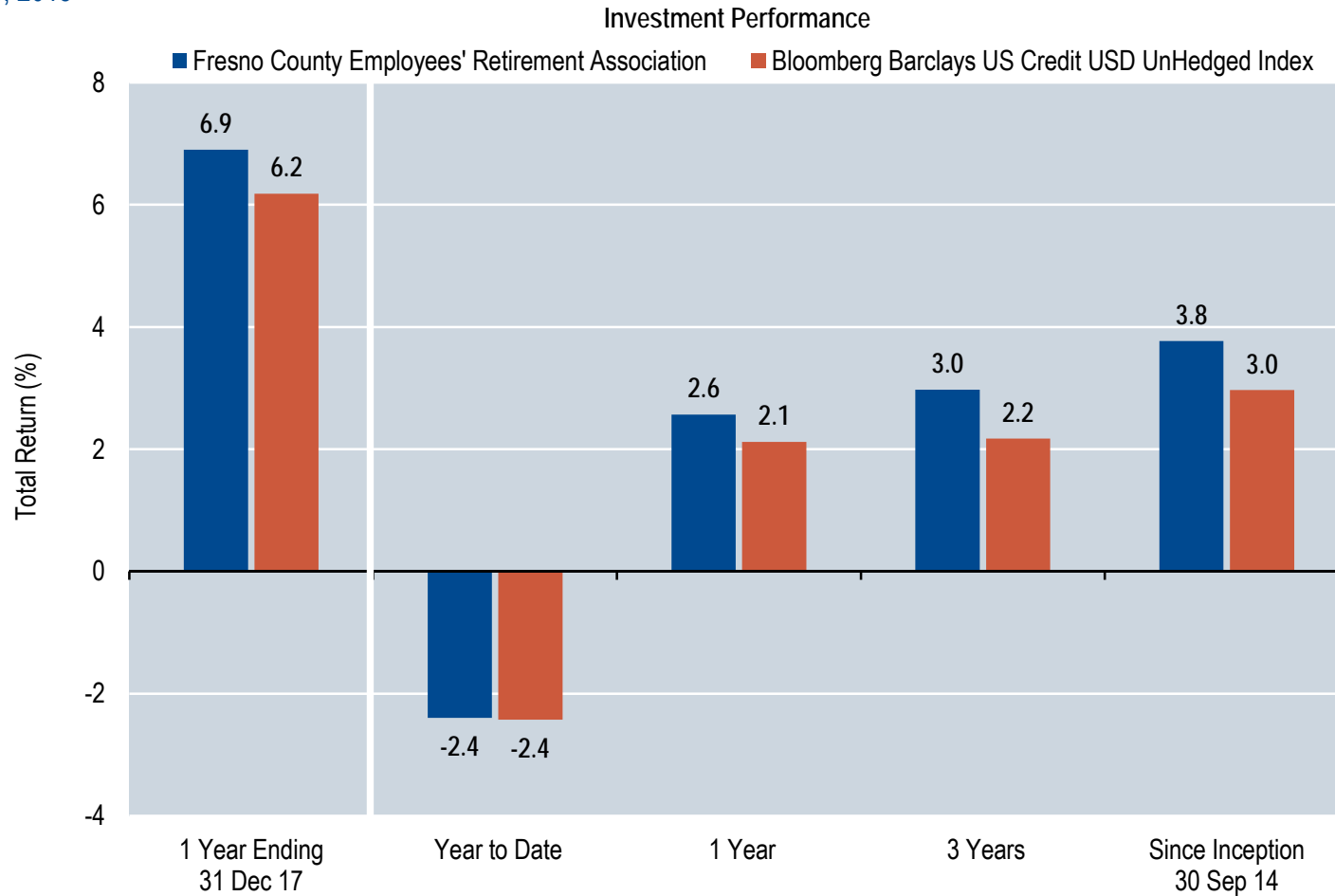
Systems review and enhancement

Portfolio Review

Investment Results

Fresno County Employees' Retirement Association vs. Bloomberg Barclays U.S. Credit Index

February 28, 2018



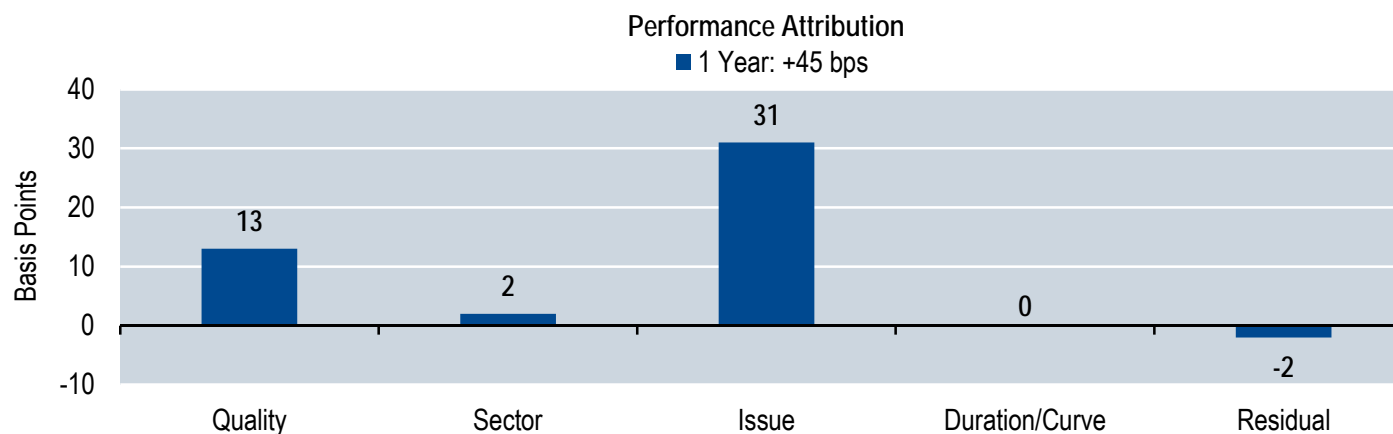
Source: Bloomberg Barclays, Western Asset

Performance shown is gross of fees. The account's actual return will be reduced by those fees and any other expenses chargeable to the account. The fee schedule for this strategy may be found in Part 2 of Western Asset's Form ADV. As fees are deducted quarterly, the compounding effect will be to increase the impact of the fees by an amount directly related to the gross account performance. For example, on an account with a 1% annual fee, if the gross performance were 10%, the compounding effect of the fees would result in a net performance of approximately 8.93%. Returns for periods greater than one year are annualized. Returns since inception are as of the indicated close of business day.

Attribution Analysis

Fresno County Employees' Retirement Association vs. Bloomberg Barclays U.S. Credit Index

February 28, 2018



1 Year Ending February 28, 2018

- Quality positioning had a positive impact on performance due to a bias towards lower quality bonds. Over the 12 month period, lower quality cohorts outperformed in what was largely a risk-on period
- Sector allocation aided relative performance. An overweight to commodity producers (energy and metals and mining) was a primary driver of outperformance. Maintaining underweights to consumer cyclicals and technology was also positive for performance. An allocation to treasuries, which generally underperformed credit in 2017, detracted from performance
- Issue selection contributed significantly to relative performance. Overweights to select issuers in banking and metals and mining along with underweights within consumer non-cyclicals drove outperformance
- Duration and curve positioning had a neutral effect on performance

Source: Bloomberg Barclays, Western Asset

Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance.

The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component. Data may not sum to total due to rounding.

Portfolio Characteristics

Fresno County Employees' Retirement Association vs. Bloomberg Barclays U.S. Credit Index

February 28, 2018

	28 Feb 17 Portfolio MV (%)	28 Feb 18 Portfolio MV (%)	28 Feb 18 Index MV (%)
Treasury	0.1	0.9	0.0
Financial Institutions	33.3	32.7	26.8
Banking	23.4	23.7	19.5
Brokerage	1.1	0.9	0.8
Finance Companies	3.2	1.5	0.8
Financial Other	0.8	0.8	0.0
Insurance	4.5	5.0	3.6
REITS	0.2	0.7	2.1
Industrials	52.7	52.4	50.5
Basic Industry	4.8	4.0	2.7
Capital Goods	5.9	7.3	4.1
Communications	6.5	8.3	7.8
Consumer Cyclical	5.1	3.3	5.8
Consumer Non-Cyclical	10.2	11.2	12.9
Energy	12.7	12.5	7.9
Technology	6.0	4.9	7.1
Transportation	1.4	0.9	1.9
Industrial Other	0.0	0.1	0.3
Utilities	7.7	7.7	5.8
Electric	7.5	7.5	5.3
Natural Gas	0.2	0.2	0.4
Other Utilities	0.0	0.0	0.1
Non-Corporate	1.7	1.1	14.8
Municipal	0.5	0.5	2.2
High Yield	3.3	3.4	0.0
Cash	0.7	1.3	0.0
Total	100.0	100.0	100.0

Credit Quality	28 Feb 17 Portfolio MV (%)	28 Feb 18 Portfolio MV (%)	28 Feb 18 Index MV (%)
AAA	3.8	5.0	9.4
AA	6.8	4.6	9.9
A	33.1	33.4	36.8
BBB	52.5	52.3	43.9
<BBB	3.8	4.7	0.0
NR	0.0	0.0	0.0
Total	100.0	100.0	100.0
YTW (%)	3.44	3.91	3.64
Duration (yrs)	7.16	7.16	7.16
Average Quality	A	A-	A-

1.33x Basic Industry (overweight)
 1.56x Energy (overweight)
 0.80x EMD (underweight)
 79% of HY is BB
 248 different tickers

Source: Bloomberg Barclays, Western Asset

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.

Investment-Grade Credit Market Review

Investment Outlook

US Investment-Grade Credit Outlook

2018

Opinion – Be conservative after dramatic spread rally

- Fundamentals mixed – Late stages of credit cycle; cautious given potential for more aggressive behavior within Industrials
- Technicals remain positive – Continued positive inflows from abroad, domestic pension demand remains prominent
- Valuations at 10-year tight, +89 bps Bloomberg Barclays U.S. Credit Index OAS¹ – lower margin of safety.

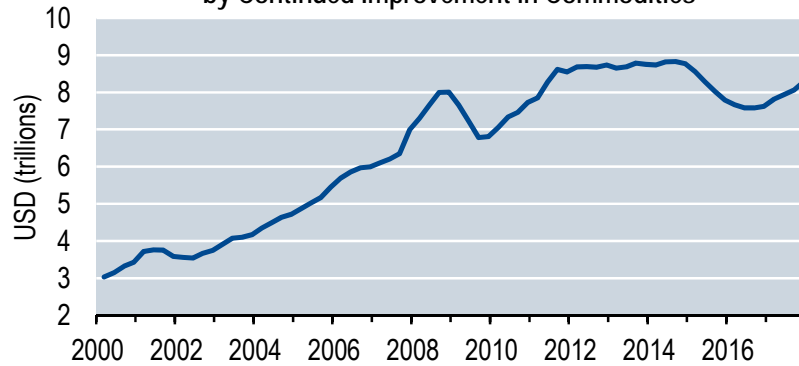
- Strategies – Sub-sector/security selection remains the top focus in the back half of the credit cycle
 - + Banks: Still favor Western Asset's long-term overweight. Ratings uplift in US, continue to own European Banks
 - Industrials: Cautious on shareholder friendly behavior, leverage creep happening
 - Basic Industry
 - + Metals/Mining: Deleveraging largely played out
 - Paper, Packaging: Tight valuation with pressure from international competition
 - Chemicals: Uncertain on the ability and willingness to deleverage post M&A activity
 - Communications – Continue caution. Fundamentals still challenged
 - + Cable: Good operating and financial profiles with better relative value
 - Wireline/Wireless: Price erosion from fierce competition, M&A risk remain top focus
 - Media: Consolidation taking place
 - Consumer Non-Cyclical
 - Food/Beverage: Elevated event risk
 - +/- Healthcare/Pharmaceuticals: Bottoming. Spending a lot of time here
 - Consumer Cyclical
 - Retailers: Secular decline in big box clothing retailers and Amazon threat
 - Automotive: New car sales peaked, weakened auto lending standards
 - + Energy: Remain overweight. Managements still acting conservative
 - Technology: Beneficiaries of tax cut; but repatriation of offshore profits may also result in equity-friendly actions such as a boost to share repurchases and US-based M&A
 - Utilities: Modest underweight. Regulated focus. M&A continues
 - + Crossover: Rising star opportunities still exist

¹As of 29 Dec 17

Investment-Grade Fundamentals: Positive Overall, Reasons for Caution

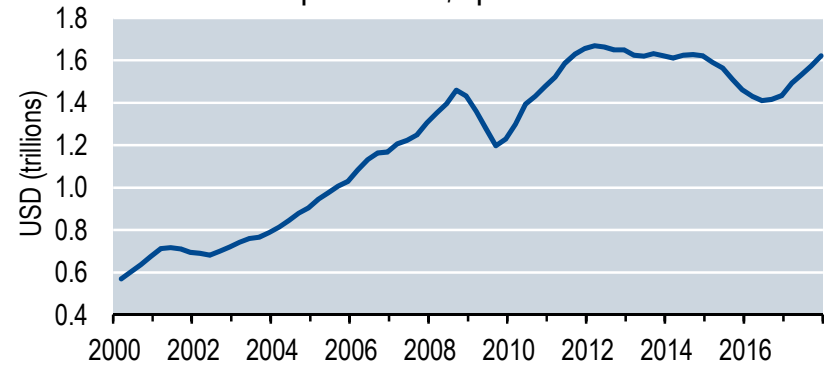
4Q17

Revenue: Up 8.5% YOY. Revenue Growth Driven by Continued Improvement in Commodities



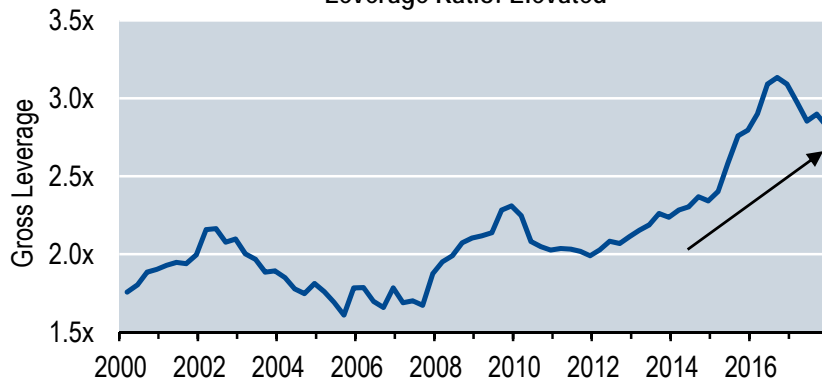
Source: J.P. Morgan. As of 31 Dec 17 (last 12 months)

EBITDA: up 13.0% YOY, Up 6.5% Ex-Commodities



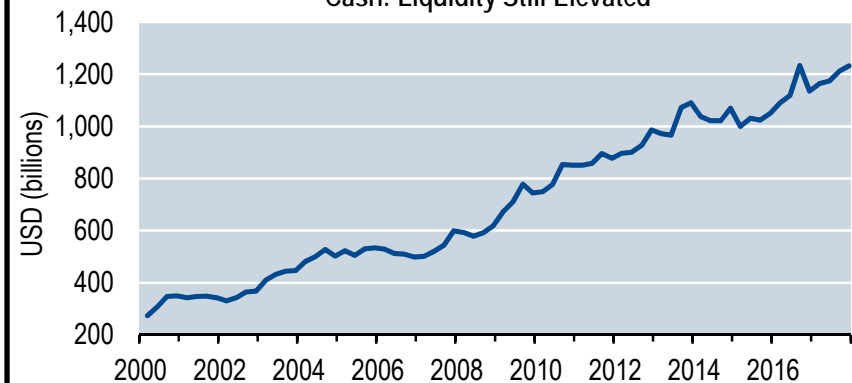
Source: J.P. Morgan. As of 31 Dec 17 (last 12 months)

Leverage Ratio: Elevated



Source: J.P. Morgan. As of 31 Dec 17 (last 12 months)

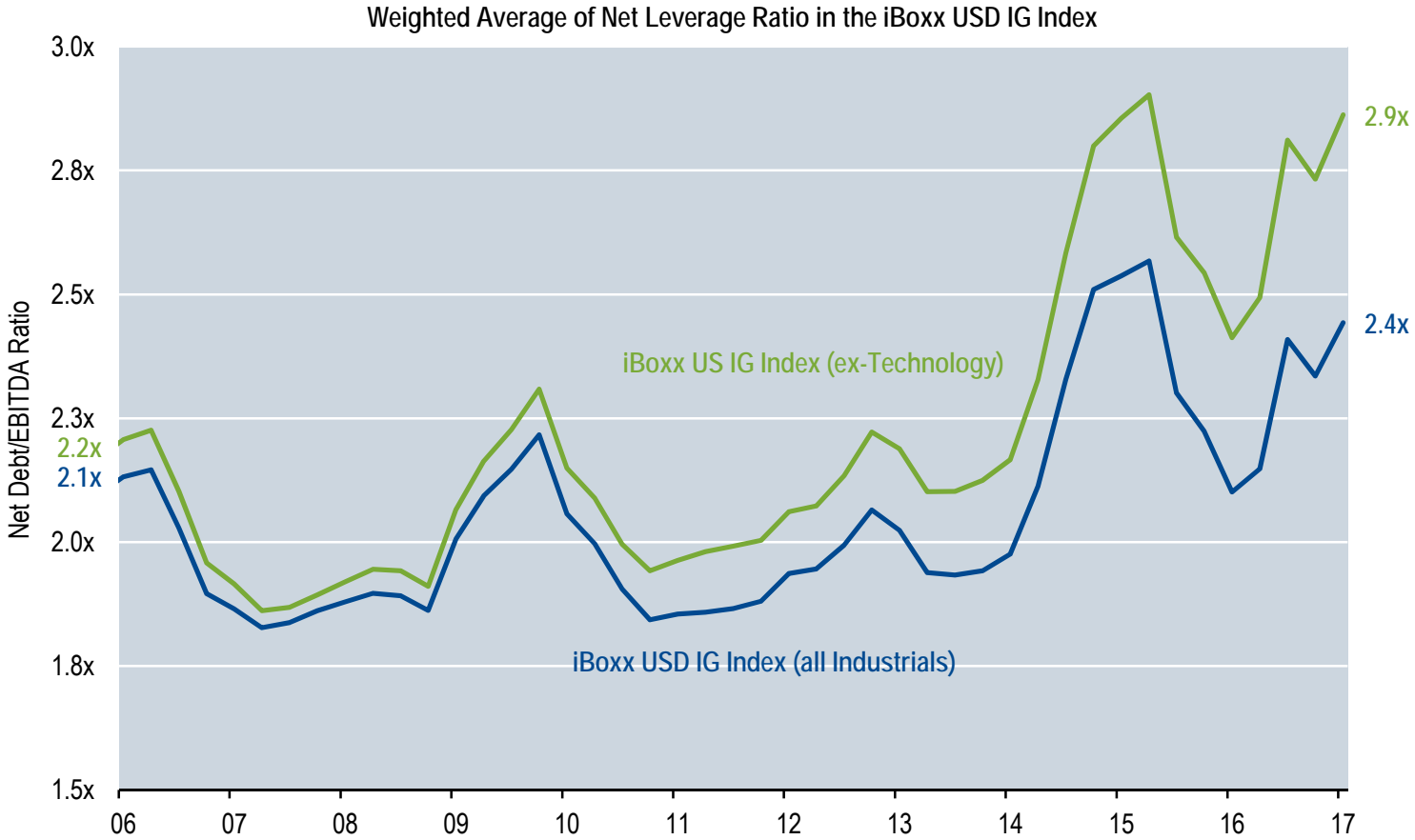
Cash: Liquidity Still Elevated



Source: J.P. Morgan. As of 31 Dec 17 (last 12 months)

Fundamentals

Leverage Creep in Industrial Sector Is a Reason for Caution

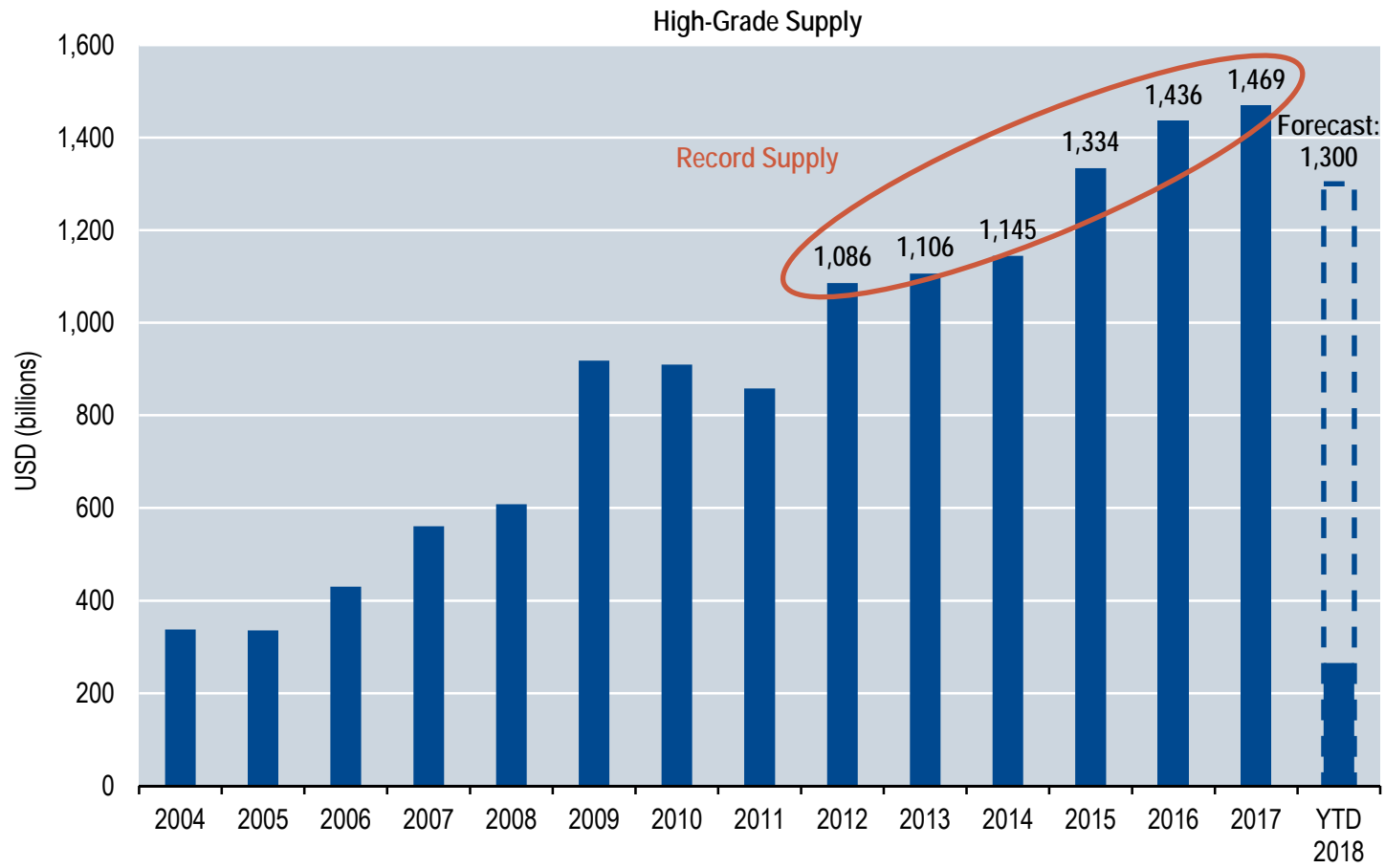


Source: Goldman Sachs, iBoxx. As of 30 Nov 17
 Markit iBoxx USD Liquid Investment Grade Index provides a balanced representation of the USD investment grade corporate market including 308 unique issuers as of 30 Nov 17.
 10.5% of the Index in Technology as of 30 Nov 17

Fundamentals

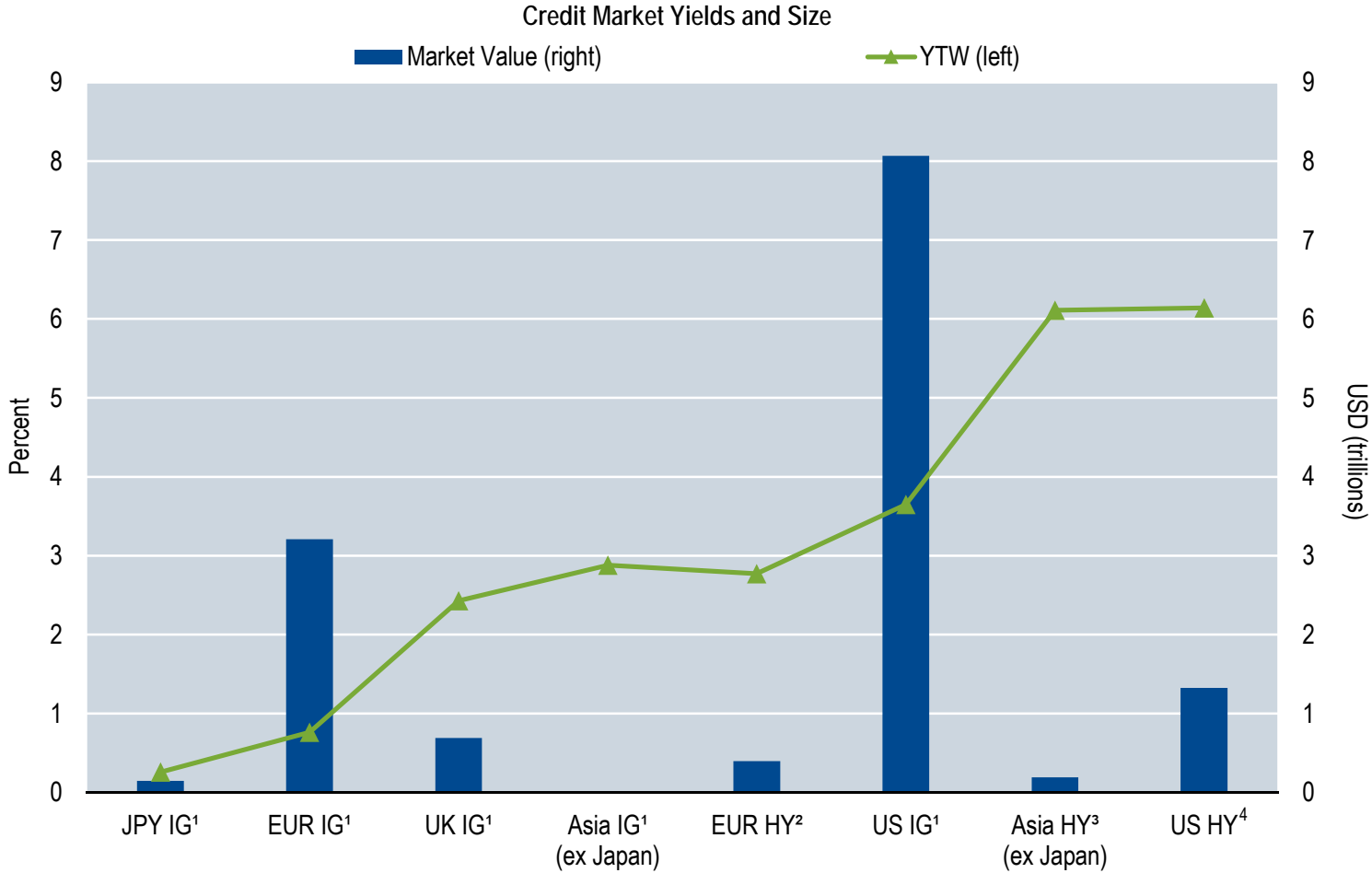


Massive New-Issue Supply



Technicals

US Credit Markets Offer Both Yield and Size

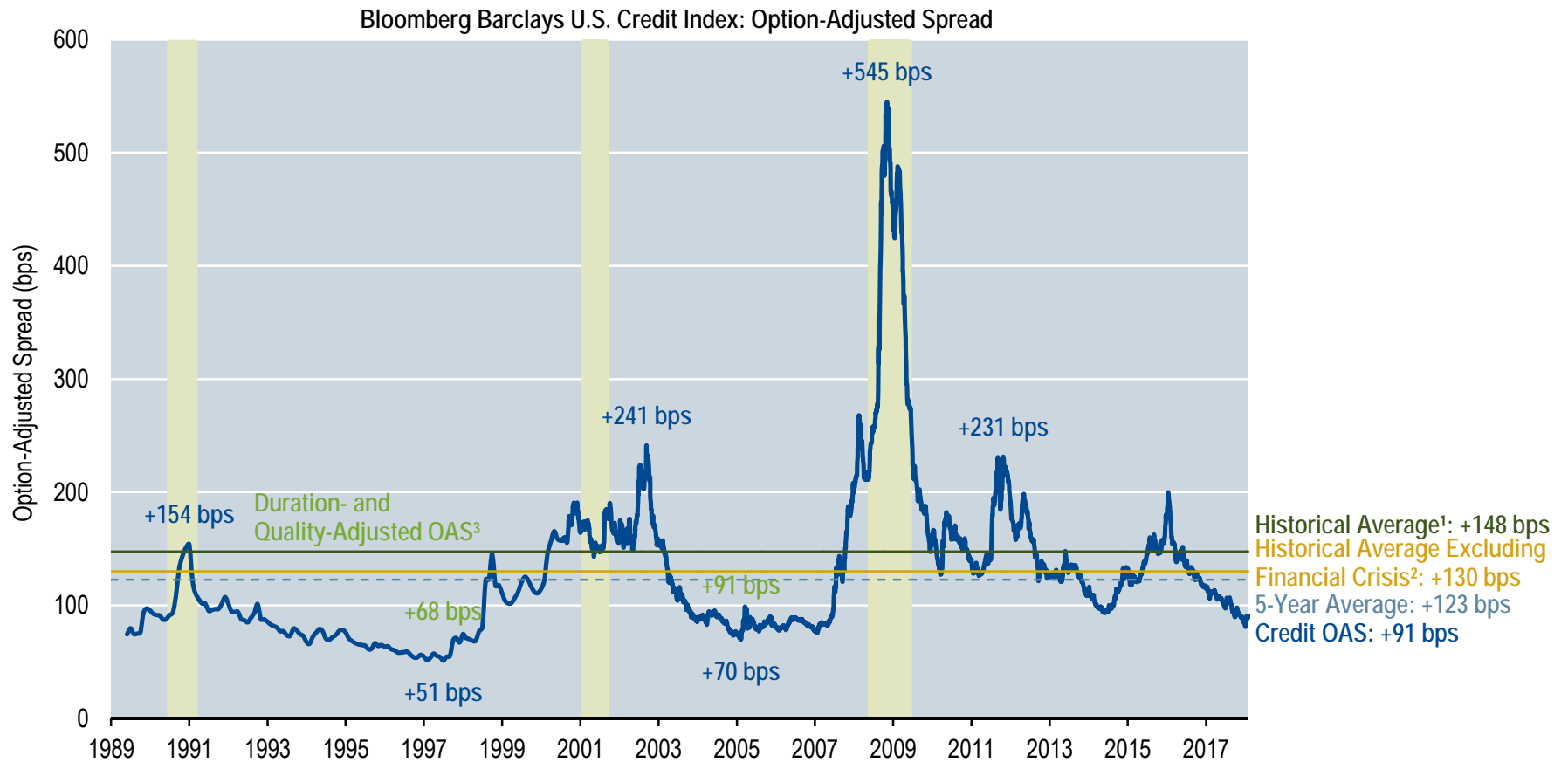


Source: Bloomberg Barclays, FactSet. As of 28 Feb 18
 ¹Bloomberg Barclays Global Credit Index by Currency
 ²Bloomberg Barclays Global High-Yield Index by Currency
 ³Bloomberg Barclays EM Asia USD High-Yield Credit Index (USD)
 ⁴Bloomberg Barclays U.S. High-Yield Index

Technicals

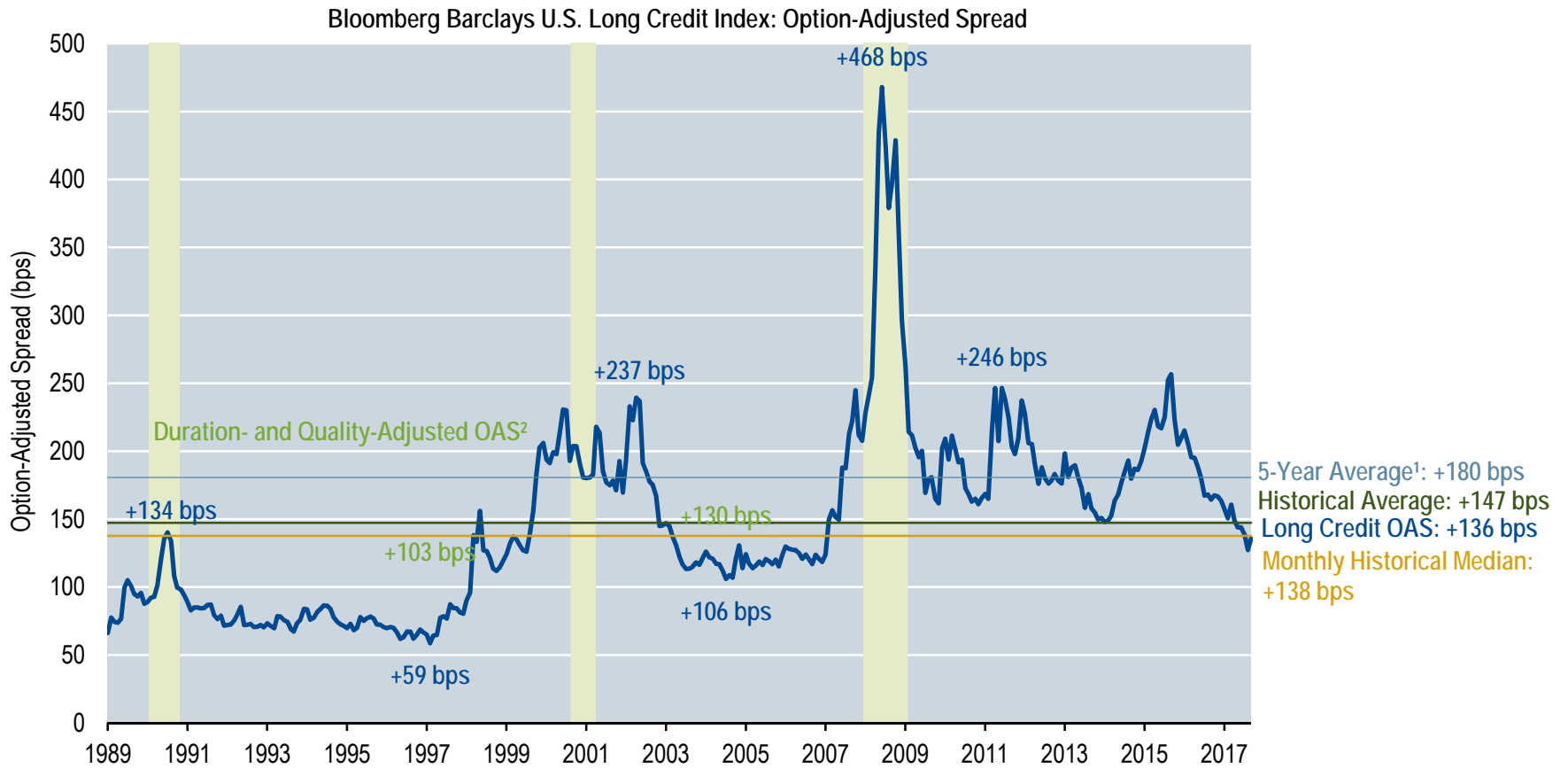


Spreads Appear at Tight End of the Range



Source: Bloomberg Barclays. As of 28 Feb 18
 Periods of recession highlighted in yellow.
¹Average based on monthly data from 30 Jun 89 – 31 Jul 00, and daily end of business days from 15 Aug 00 to current.
²Excludes data from 01 Dec 07 – 30 Jun 09
³Historical OAS normalized to today's index characteristics

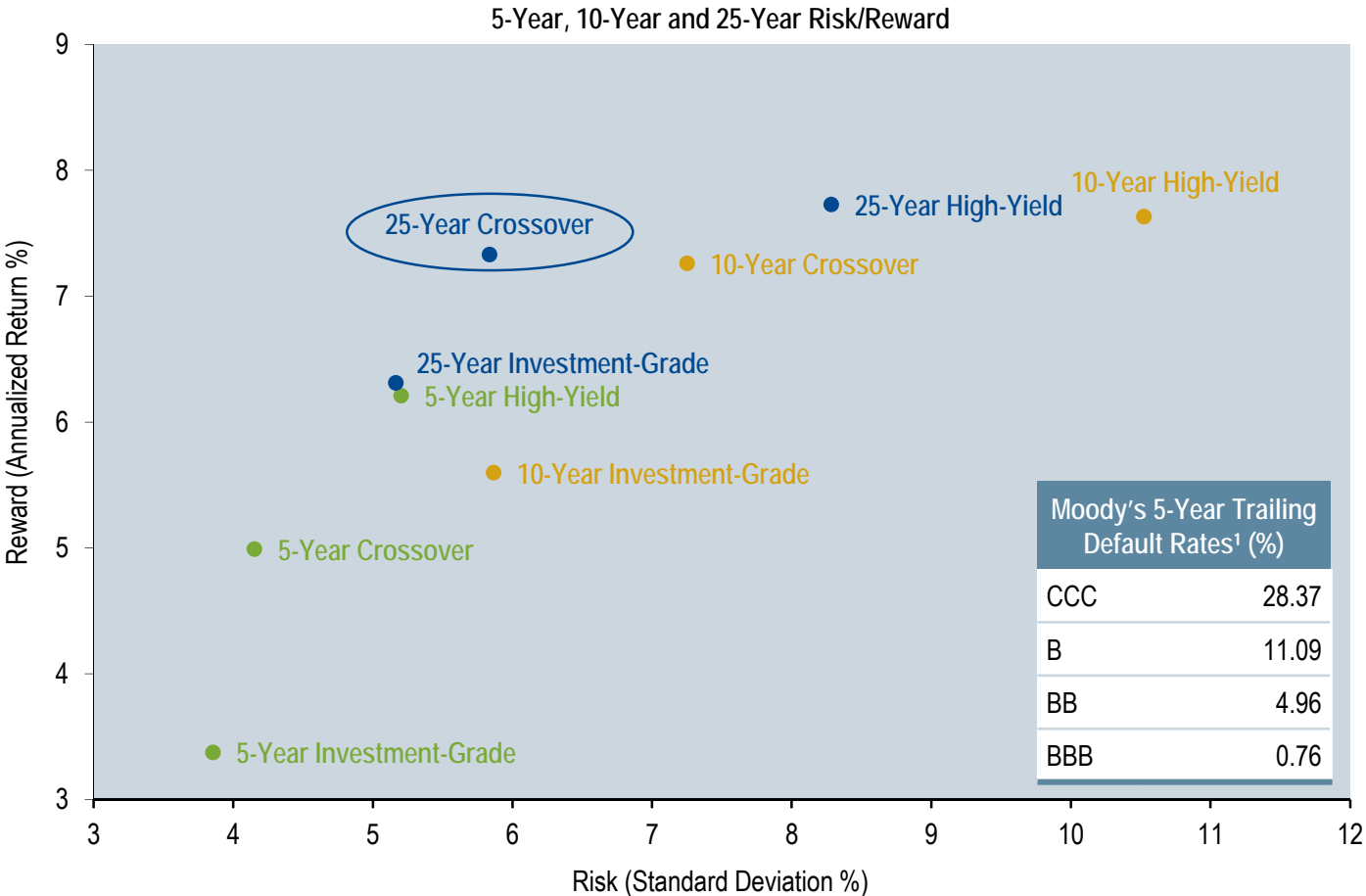
Longer Dated Spreads Slightly Cheap to Historical Average



Source: Bloomberg Barclays. As of 28 Feb 18
 Periods of recession highlighted in yellow.
 ¹Monthly average since June 1989
 ²Historical OAS normalized to today's index characteristics

5-Year Average¹: +180 bps
 Historical Average: +147 bps
 Long Credit OAS: +136 bps
 Monthly Historical Median:
 +138 bps

Know Where to Fish: Crossover Credits Exhibit Attractive Risk/Reward Profile



Valuations

Source: Bank of America Merrill Lynch, Moody's. As of 31 Dec 17
¹As of 31 Dec 16

The BofA Merrill Lynch US Crossover Corporate Index tracks the performance of US dollar denominated BBB and BB corporate debt publicly issued in the US domestic market.

Qualifying securities must be rated BBB1 through BB3, inclusive (based on an average of Moody's, S&P and Fitch).

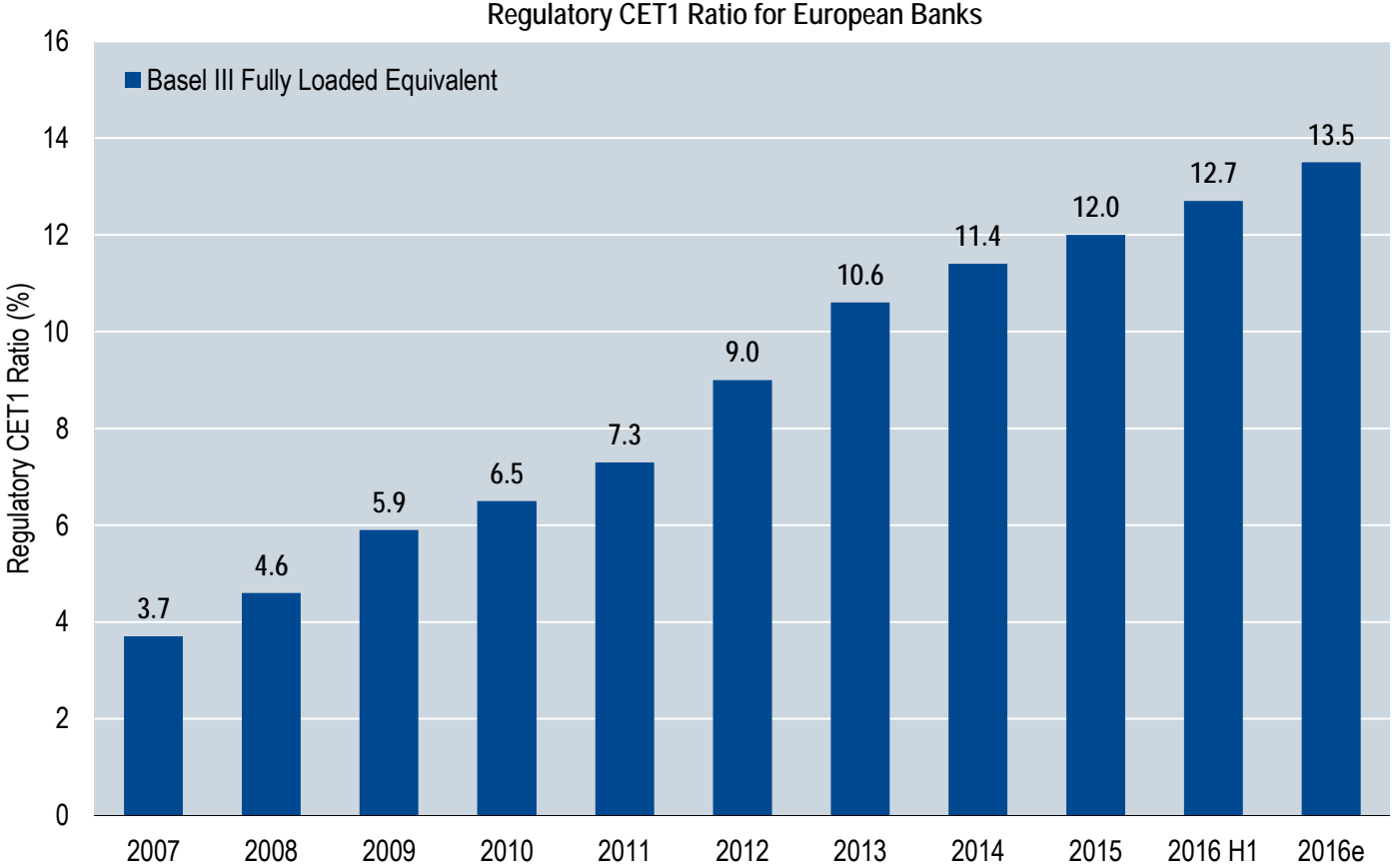
For below investment grade debt the country of risk must be an FX-G10 member, a Western European nation, or a territory of the US or a Western European nation.

Qualifying constituents are segmented into two groups: those rated between BBB1 and BBB3, inclusive, and those rated between BB1 and BB3, inclusive. Within the two groups, constituents are capitalization-weighted. Each group is then assigned a 50% weight in the overall index.



Investment-Grade Strategies

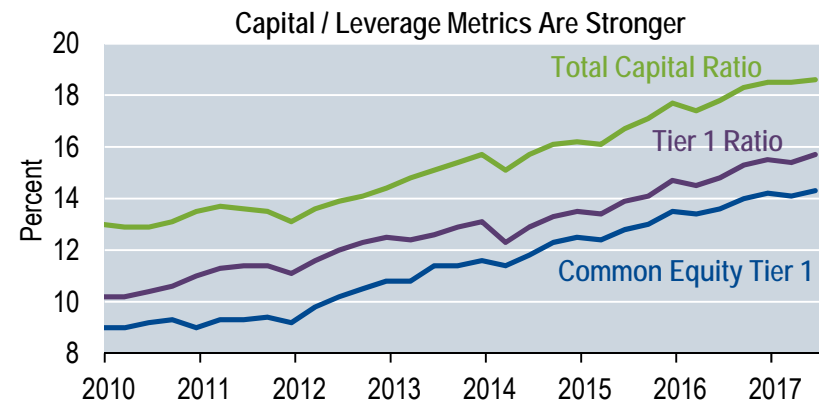
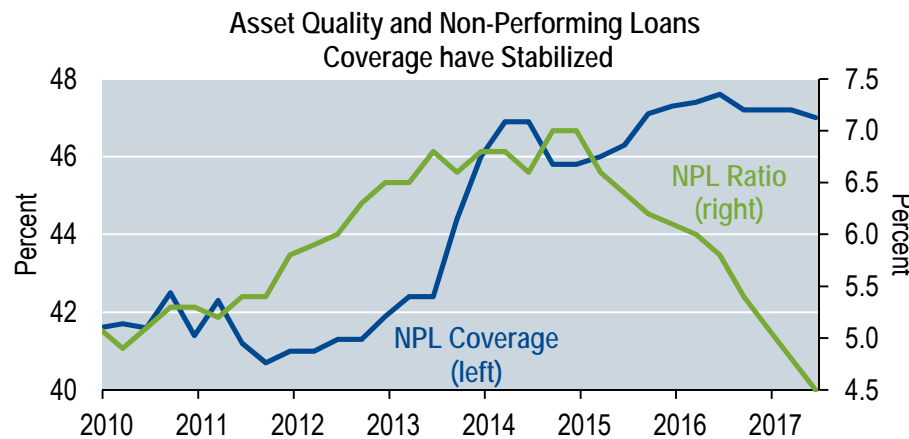
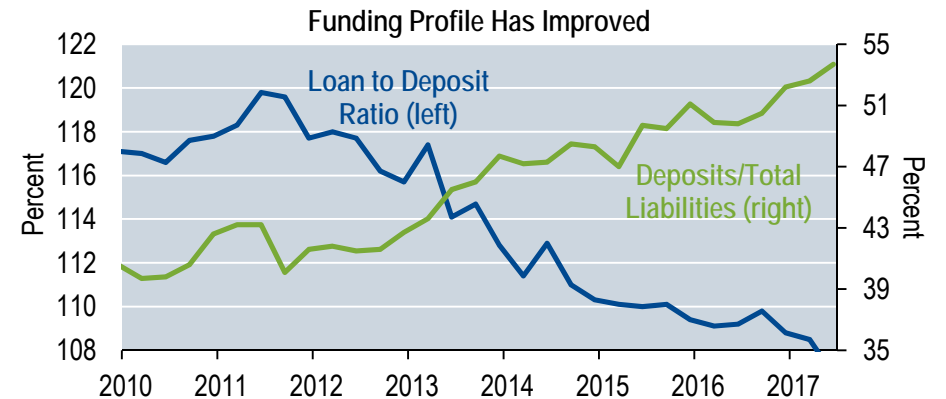
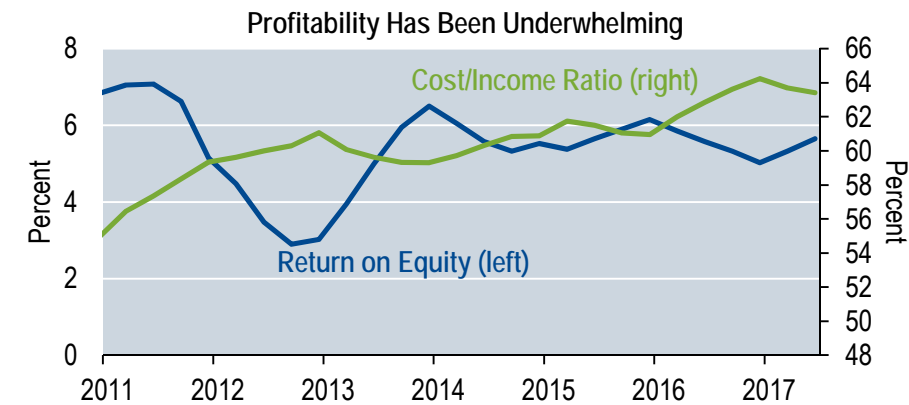
Strategy 1: Both US and European Banks Have Dramatically Improved Their Capitalization



Source: BNP Paribas. As of 22 Mar 17

Strategy 1 (continued): European Bank Fundamentals Continue to Improve

Balance sheet metrics have improved meaningfully and profitability trends are heading in right direction.



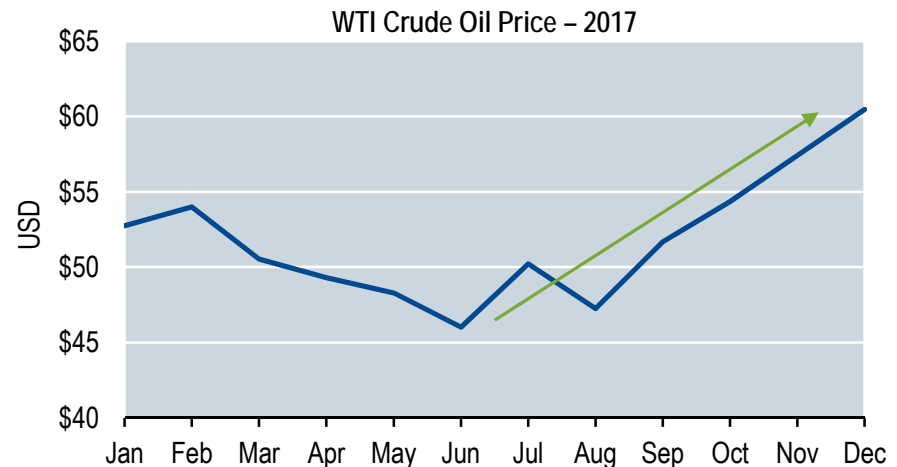
Source: EBA. As of 30 Jun 17

Strategy 2: Overweight Energy – “Stay the Course”

Report Date: 1 May, 2017

Energy: Overweight Sector with a Barbell Approach

- **Strategy:** Barbell: High quality + Constructive Lower Quality
- **Favored Sub-Segments:** Exploration & Production, Integateds, Pipelines
- **Willing to Trade / Take Tactical Positions:** Oil Field Service, Refiners
- Energy sector thesis summary:
 - Macro outlook continues to drive fundamentals.
 - China / global growth / USD strength in focus
 - Global demand growth for oil robust at 11.1MMBpd – 1.2MMBpd.
 - **Industry still healing; supply and demand gradually rebalancing resulting in more supportive price deck.**
 - Inventories are normalizing.
 - OPEC and non-OPEC cooperation on production cuts w
 - OPEC behavior changed from prior cycles.
 - Industry commitment to further deleveraging is being w
 - Recent strip oil & gas prices have incentivized producer
 - E&P subsector can survive \$50 - \$55 per barrel. But
 - FY17 capital budgets revised higher vs FY16; US activi
 - Capital allocation decisions directed to short cycle or
 - Reintroduces potential service cost inflation
 - M&A: more conservative than prior cycles – increased l
 - Acquiring future growth optionality to reshape portfol
 - Capital markets are accommodative but cautious.



Source: FactSet. As of 31 Dec 17

2 **INTERNAL RESEARCH NOTES** The "internal research notes" are confidential. May not be distributed without reference. May not be distributed without c

Strategy 3: Overweight Metals and Mining

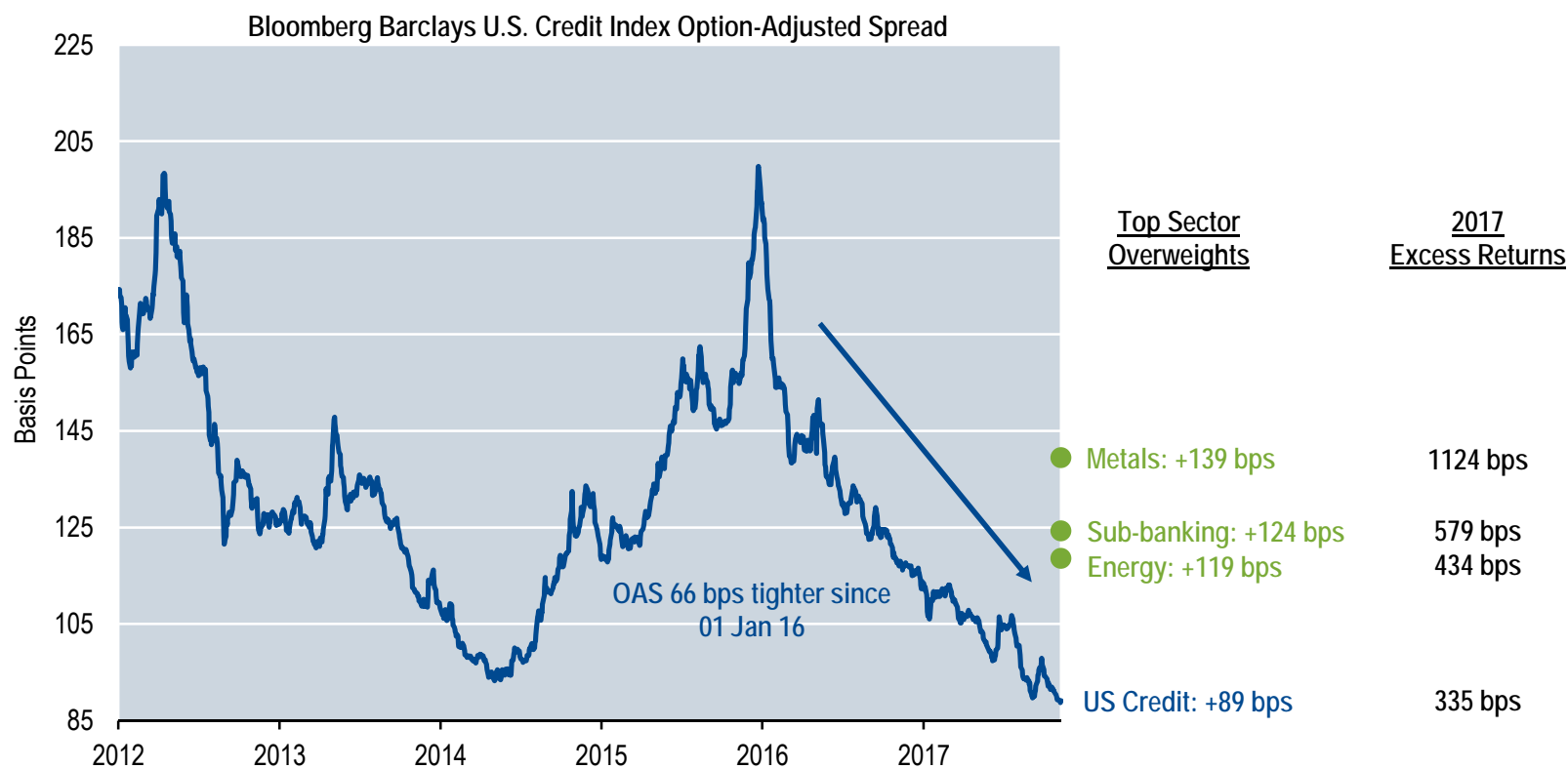
Deleveraging Slowing in 2018. Shareholder Returns in Focus

Date	Company	Ratings	Accepted (\$MM)
2015			
Sep 2015	Barrick Gold	Baa3/BBB-	\$834
Dec 2015	Barrick Gold	Baa3/BBB-	\$1,251
2016			
Feb 2016	Barrick Gold	Baa3/BBB-	\$718
Feb 2016	Newmont Mining Corp	Baa2/BBB	\$500
Apr 2016	Rio Tinto	Baa1/A-	\$1,500
Jun 2016	Rio Tinto	Baa1/A-	\$2,999
Sep 2016	Rio Tinto	Baa1/A-	\$1,498
Oct 2016	Glencore	Baa3/BBB-	\$1,492
Oct 2016	Newmont Mining Corp	Baa2/BBB	\$508
Nov 2016	Barrick Gold	Baa3/BBB-	\$595
2017			
Feb 2017	BHP	A3/A	\$1,841
Apr 2017	Arconic Inc	Ba2/BBB-	\$805
May 2017	Rio Tinto	Baa1/A-	\$2,500 ¹
Jun 2017	Barrick Gold	Baa3/BBB-	\$279
Aug 2017	BHP	A3/A-	\$2,500
Total (Sept 2015 - YTD 2017)			\$ >25 billion

¹Proposed tender amount
Source: Western Asset. As of 23 Aug 17

Strategy 4: Avoiding Underperformers Just as Important

Sector and security selection key at tighter valuations in 2018. Focus on industries that are delevering; avoid the underperformers.



Worst Performing Subsectors in 2017

Subsector	Excess Return	Comments
Retailers	232 bps	Underweight
Tobacco	229 bps	Neutral
Wirelines	283 bps	Underweight
US Credit	335 bps	

Source: Bloomberg Barclays. As of 31 Dec 17

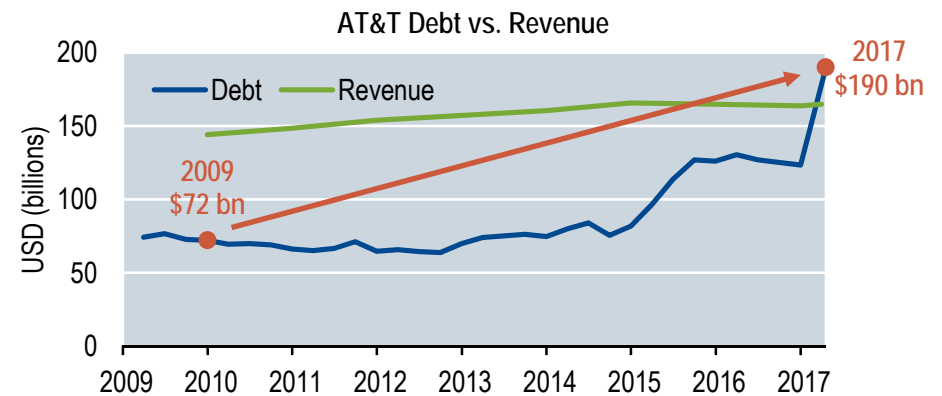
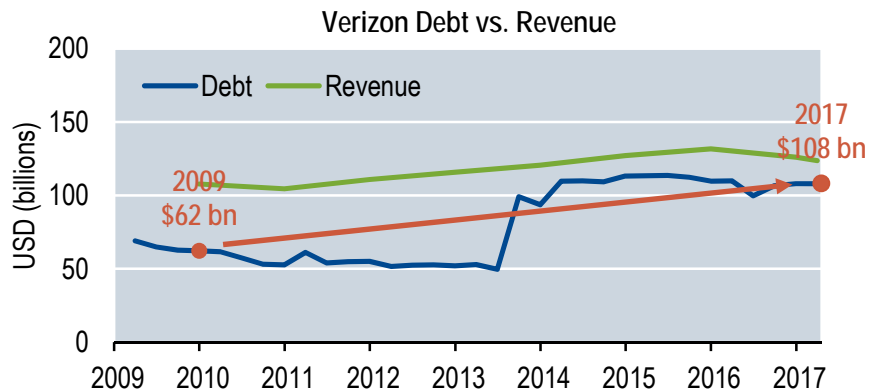
Strategy 4 (continued): Warning Signs in Telco? Debt-Fueled M&A

Verizon		
Acquisitions		
Sep 2013	Verizon Wireless	\$130.0 bn (Wireless)
Apr 2014	AOL	\$3.8 bn (Content)
Oct 2016	Yahoo	\$4.5 bn (Content)
		\$138.3 bn

Pro forma Leverage (as of YE 2017): 2.3x

AT&T		
Acquisitions		
Sep 2013	LEAP	\$4.0 bn (Wireless)
May 2015	DirecTV	\$67.0 bn (Satellite)
Jul 2016	Time Warner	\$109.0 bn (Content)
		\$180.0 bn

Pro forma Leverage (as of YE 2017): 2.9x



Source: Bloomberg. As of 19 Apr 17

Strategy 5: Buy After the “Bad Deed”: Coming to an End?

Bad deed = Negative credit event risk and leveraging transactions

We like good companies with a clear, post-transaction deleveraging strategy and attractive new issue concessions

Date	Subsector	Acquirer/Issuer	Target/M&A	Rating	Issuance	10-Year Spread at Issue (bps)	Current 10-Year Spread (bps)
Mar '15	PHARMACEUTICALS	ACTAVIS FUNDING SCS	ALLERGAN	BAA3	\$21 bn	+175	+92
Apr '15	WIRELINES	AT&T INC	DIRECTV	BAA1	\$17.5 bn	+150	+150
June '15	TOBACCO	LORILLARD	REYNOLDS AMERICAN	BAA2	\$9 bn	+205	+104
Jan '16	FOOD_AND_BEVERAGE	ANHEUSER-BUSCH INBEV	SABMILLER	A3	\$46 bn	+160	+91
Mar '16	CONSUMER PRODUCTS	NEWELL RUBBERMAID INC	JARDEN CORP	BAA3	\$8 bn	+235	+100
May '16	RETAILERS	WALGREENS BOOTS ALLIANCE	BOOTS ALLIANCE UK	BAA2	\$6 bn	+165	+115
					\$108 bn		

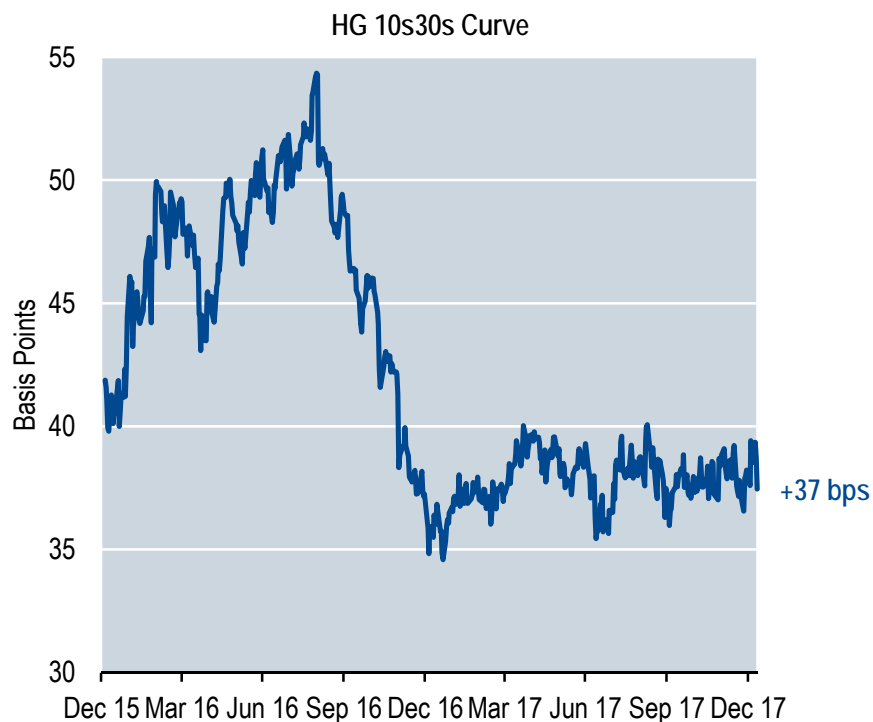
2018 Deals to Watch out For

Date	Subsector	Acquirer/Issuer	Target/M&A	Rating
May '16	BASICS	BAYER	MONSANTO	A3
Sep '17	AEROSPACE DEFENSE	UNITED TECHNOLOGIES	ROCKWELL COLLINS INC.	A3
Nov '17	TECHNOLOGY	AVAGO	QUALCOMM	Baa3
Dec '17	RETAILERS	CVS HEALTH CORP	AETNA INC.	Baa1
Dec '17	MEDIA	DISNEY	21ST CENTURY FOX AMERICA	A2
Dec '17	FOOD_AND_BEVERAGE	CAMPBELL SOUP	SNYDERS-LANCE	Baa1
Feb '18	AEROSPACE DEFENSE	GENERAL DYNAMICS	CSRA INC.	A2
Feb '18	FOOD_AND_BEVERAGE	GENERAL MILLS	BLUE BUFFALO	Baa2
	RETAILERS	WALGREEN (?)	AMERISOURCEBERGEN CORP	Baa2

Fundamentals

Source: Western Asset. As of 12 Jul 17

Strategy 6: Credit Spreads: 30s More Fully Valued After Recent Outperformance vs. 10s



J.P. Morgan US Liquid Index (JULI) Non-Financial ex-EM data shown
Source: J.P. Morgan. As of 10 Jan 18

Corporate Credit 10/30 Curves

Industrials			
<i>Communications</i>			
Wirelines	Verizon 10yrs		115
Baa1/BBB+/A-	Verizon 30yrs		185
			70
<i>Consumer Non-Cyclical</i>			
Pharmaceuticals	Gilead 10yrs		70
A3/A-	Gilead 30yrs		105
			35
Food & Beverage	Anheuser-Busch InBev 10yrs		78
A3/A-/BBB	Anheuser-Busch InBev 30yrs		119
			41
Tobacco	Reynolds 10yrs		112
Baa3/BBB/BBB	Reynolds 30yrs		145
			33
<i>Energy</i>			
Independent E&P	Occidental Petroleum 10yrs		61
A3/A	Occidental Petroleum 30yrs		96
			35
<i>Transportation</i>			
Railroads	Burlington 10yrs		50
A3/BBB+	Burlington 30yrs		75
			25

Source: Bloomberg. As of 11 Jan 18

Appendix

Biographies

FRANCES L. COOMBES

20 Years Experience

- Western Asset Management Company – Client Service Executive, 1998–
- Columbia University, School of International and Public Affairs, M.P.P.
- University of California, Berkeley, B.A.

KURT D. HALVORSON

17 Years Experience

- Western Asset Management Company – Trader, 2010–
- Aegon USA Investment Management – Senior Corporate Bond Manager, 2006-2010
- 40/86 Advisors, LLC – Senior Trader, 2005-2006
- Banc of America Securities, LLC – Associate, Corporate Bond Trading, 2001-2005
- Covenant College, B.A. Business
- Chartered Financial Analyst

Note: Western Asset experience reflects current position title and hire date.

Representative Client List Disclosure

The clients listed are invested in a wide range of mandates, and are located in a variety of countries or regions of the United States.

The clients listed in the Corporate company type have portfolios with an AUM of \$35(M) or greater.

The clients listed in the Public company type have portfolios with an AUM of \$69(M) or greater.

The clients listed in the Multi-Employer / Union company type have portfolios with an AUM of \$15(M) or greater.

The clients listed in the Healthcare company type have portfolios with an AUM of \$8(M) or greater.

The clients listed in the Eleemosynary company type have portfolios with an AUM of \$10(M) or greater.

The clients listed in the Insurance company type have portfolios with an AUM of \$19(M) or greater.

The clients listed in the Sub-Advisory company type have portfolios with an AUM of \$15(M) or greater.

Clients that have advised Western Asset of account terminations have been excluded from the lists.

Risk Disclosure

© Western Asset Management Company 2018. This publication is the property of Western Asset Management Company 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 Management. 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 Management 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 authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. 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 (“WAMCL”) is authorised and regulated by the Financial Conduct Authority (“FCA”). In the UK and EEA countries, this communication is a financial promotion intended for distribution to Professional Clients only as defined by the FCA or MiFID II rules.