

MEMORANDUM

To: **Board of Trustees, Fresno County Employees' Retirement Association**
From: **Steven Center, Senior Research Associate**
CC: **Jeffrey MacLean, Senior Consultant**
Date: **September 12, 2008**
Re: **Western Asset Management – Organizational Updates**

Update on Ken Leech, Chief Investment Officer

In April of this year, Ken Leech, Chief Investment Officer of Western Asset Management (WAMCO), announced that he would be taking a medical leave of absence (see our memo dated April 22, 2008 for details). Earlier this month, WAMCO announced Mr. Leech's condition has stabilized, and he has decided to return to WAMCO. However, Mr. Leech's ongoing medical condition has made it difficult for him to continue as the full-time Chief Investment Officer and an active portfolio manager. As such, WAMCO has promoted Stephen Walsh to the role of Chief Investment Officer.

Mr. Walsh has been WAMCO's Deputy Chief Investment Officer for the last ten years, during which time he shared investment leadership responsibilities with Mr. Leech. In addition, Mr. Walsh served as interim Chief Investment Officer while Mr. Leech was out on medical leave. Mr. Walsh has worked with Mr. Leech for over seventeen years.

Mr. Leech will assume a new strategic advisory role, in which he will work with the senior investment professionals as they make top-down investment decisions. This will include global strategic analysis on topics such as sector allocation, yield curve positioning, and duration decisions. Mr. Leech will no longer be responsible for portfolio management – his responsibilities on the WAMCO mutual funds and commingled trusts will transition to Mr. Walsh, and his separate account responsibilities will be absorbed by the existing generalist team. Mr. Leech will also greatly reduce his client service responsibilities.

Organizational Changes

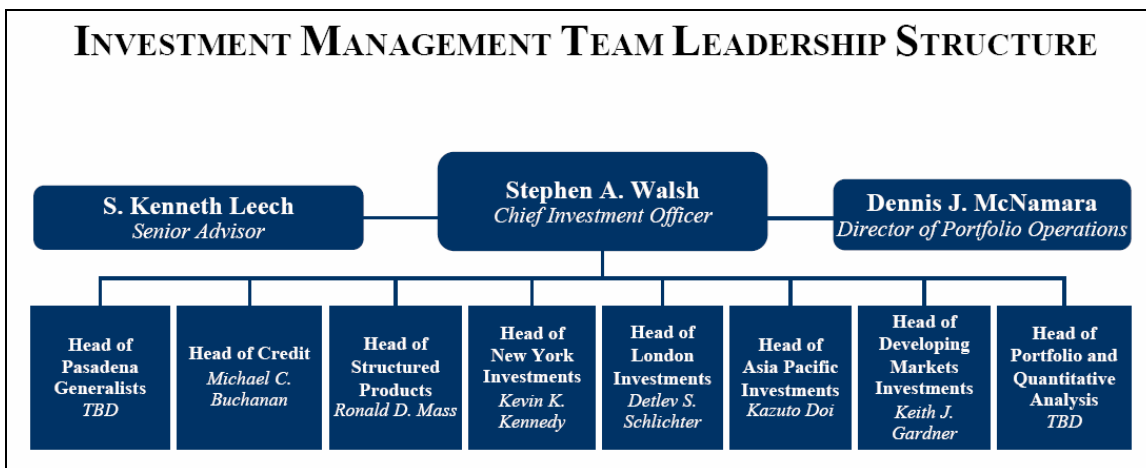
WAMCO also announced some organizational changes which will occur along with the transition of CIO duties from Mr. Leech to Mr. Walsh. These changes include the creation of five new senior positions, each responsible for leadership and oversight of five key parts of WAMCO's investment process. The five new positions are:

1. Head of Credit: Michael Buchanan will lead the global high-yield, investment grade, and bank-loan teams.
2. Head of Developing Markets: Keith Gardner will lead the global emerging markets teams.

3. Head of Asia-Pacific: Kazuto Doi will oversee the investment teams across the Tokyo, Singapore, and Melbourne offices.
4. Head of Pasadena Generalists: This to-be-filled position will oversee the generalist team in Pasadena and manage broad-market strategies and portfolio construction. WAMCO is currently interviewing both internal and external candidates for this position.
5. Head of Portfolio and Quantitative Analysis: This to-be-filled position will oversee the quantitative analyst group, analyze risk factors in portfolios, and oversee ongoing correlation and risk/reward studies involving all investment decisions. WAMCO currently has an outstanding offer to an external candidate for this position.

The reason for this change is twofold. Prior to this reorganization, the Chief Investment Officer had twenty employees who reported directly to him. Under this new structure, this number is reduced to eight (the five new positions listed above, plus the existing positions of Head of Structured Products, Head of New York Investments, and Head of London Investments). Many of the positions which used to report directly to the Chief Investment Officer now will report to one of the newly created positions – for example, the Head of Melbourne Investments now reports to the Head of Asia Pacific Investments, rather than directly to the CIO. Additionally, the newly created positions will help identify the next generation of leaders at WAMCO.

A new organizational chart is as follows:



Recommendation

The promotion of Mr. Walsh to Chief Investment Officer was not unexpected – his tenure as Deputy Chief Investment Officer was quite long. He has proven to be a longstanding proponent of WAMCO’s investment style, and should be successful in the role. The return of Mr. Leech to WAMCO is welcome news, even at a reduced capacity. Additionally, the organizational changes have served to streamline the investment management team, and should allow Mr. Walsh to be more effective in managing the investment decisions of a team as large as the one found at WAMCO. Given Mr. Walsh’s long tenure with the firm and the positives relating to the organizational changes, Wurts & Associates sees no need for action at this time. Biographies of the investment management team, along with a copy of WAMCO’s message to clients regarding the organizational changes, are attached for your reference.

APPENDIX 1: BIOGRAPHIES

MICHAEL C. BUCHANAN – Head of Credit

18 Years Experience

- Western Asset Management Company – Portfolio Manager, 2005– Present
- Credit Suisse Asset Management – Managing Director, Head of U.S. Credit Products, 2003–2005
- Janus Capital Management – Executive Vice President, Portfolio Manager, 2003
- Blackrock Financial Management – Managing Director, Portfolio Manager, Head of High Yield Trading, 1998–2003
- Consec Capital Management – Vice President, Portfolio Manager, 1990–1998
- *Brown University, B.A.*
- *Chartered Financial Analyst*

KAZUTO DOI – Head of Asia Pacific Investments

19 Years Experience

- Western Asset Management Company – Portfolio Manager, 2005– Present
- Citigroup Asset Management – Managing Director, Head of Fixed Income, 2000–2005
- PanAgora Asset Management – Investment Research Manager, 1995–2000
- Nippon Life Insurance Company – Manager / Fixed Income Investment, 1989–1995
- *Boston College, M.S.*
- *Kyoto University, B.A.*
- *Chartered Member of the Security Analysts Association of Japan*

KEITH J. GARDNER – Head of Developing Markets Investments

25 Years Experience

- Western Asset Management Company – Portfolio Manager/Research Analyst, 1994– Present
- Legg Mason, Inc. – Portfolio Manager, 1992–1994
- T. Rowe Price Associates, Inc. – Portfolio Manager, 1985–1992
- Salomon Brothers, Inc. – Research Analyst, 1983–1985
- *Emerging Markets Trade Association – Board Member*
- *Emerging Markets Creditors' Association – Founding and Board Member*
- *State University of New York at Binghamton, B.S.*

KEVIN K. KENNEDY – Head of New York Investments

31 Years Experience

- Western Asset Management Company – Portfolio Manager, 2005– Present
- Citigroup Asset Management – Portfolio Manager, 1993 – 2005
- Metropolitan Life – Portfolio Manager, 1985 – 1993
- Kenney & Branisel – Money Market Trader, 1984 – 1985
- Bank of New York – Trader/PM Treasury Division, 1977 –83
- *Stonehill College, B.A.*

RONALD D. MASS – Head of Structured Products

21 Years Experience

- Western Asset Management Company – Portfolio Manager/Research Analyst, 1991– Present
- The First Boston Corporation – Research Associate, 1987–1990
- *University of California, Los Angeles, B.A.*
- *Chartered Financial Analyst*

DETLEV S. SCHLICHTER – Head of London Investments

18 Years Experience

- Western Asset Management Company – Portfolio Manager, 2001– Present
- Merrill Lynch Investment Managers – Director of European Bond Team, 1998–2001
- JP Morgan & Co. – Vice President, 1990–1998
- *University of Bochum, Diplomkonom*

APPENDIX 2: WESTERN ASSET E-MAIL ANNOUNCEMENT

Earlier this year, our esteemed colleague, Ken Leech, was diagnosed with a medical condition that necessitated his temporary leave of absence. We are extremely happy to inform you of Ken's stabilized condition for the present, allowing him to continue his meaningful contributions to our investment management team.

Despite the improvement, Ken's condition has made it difficult for him to maintain his prior duties as a portfolio manager and Chief Investment Officer. In a testament to putting the firm and its clients first, Ken was an essential force behind our collective decision for Stephen Walsh to assume the role of Chief Investment Officer. Steve has been Western Asset's Deputy Chief Investment Officer for the last ten years and has worked side by side with Ken for the past 17 years. Ken will continue to work closely with Steve and the entire investment team in a strategic advisory capacity.

As part of the CIO transition process, we performed an internal review of our investment management team's organizational structure. We engaged The Boston Consulting Group, a global management consulting firm which specializes in organizational design and has a highly regarded asset management practice, to assist us in this review. The review resulted in the creation of the following five new senior positions, which will enable us to further leverage our long-held investment philosophy, empower our proprietary investment process, and maximize the effectiveness of Steve's new CIO role:

1. **Head of Credit:** Michael Buchanan will lead the global high-yield, investment-grade and bank-loan teams. This position will also have the responsibility of coordinating credit analysis across our global offices.
2. **Head of Developing Markets:** Keith Gardner will lead the Pasadena- and Sao Paulo-based emerging markets teams and will also be responsible for coordinating our emerging markets strategies globally.
3. **Head of Asia-Pacific:** Kazuto Doi will oversee the investment teams across the Tokyo, Singapore, and Melbourne offices. In addition, this position will ensure the views and perspectives of the Asia-Pacific teams are integrated with our global perspective.
4. **Head of Pasadena Generalists:** This new position will oversee the generalist team in Pasadena and will manage the implementation of broad-market strategies and portfolio construction.
5. **Head of Portfolio and Quantitative Analysis:** This new position will oversee the quantitative analysts group, analyze risk-taking in portfolios, and assess correlations and risk/reward trade-offs in investment decisions.

As outlined above, we have already appointed three leaders and are currently in the process of identifying candidates to fill the remaining positions. During and after this transition, the entire organization will continue to benefit from Ken's unique insights and experience.

Western Asset has enjoyed tremendous success over our 37-year history, built on a tried and tested investment philosophy and process, strong values, and, most of all, the deep knowledge and dedication of our employees around the world. We remain committed to our investment philosophy, maintain a strong conviction in our current investment strategies, and are well-positioned to weather this unprecedented market turmoil.

Your Client Service Executive will contact you to discuss these developments further and to answer any questions you may have. We remain dedicated to providing you with best-in-class asset management services and, as always, appreciate your business and continued confidence in Western Asset.

Yours sincerely,
James W. Hirschmann
Chief Executive Officer