

Performance Review

During the fourth quarter of 2018 the portfolio underperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 25 basis points (bps) on a gross basis.

The portfolio's overweight to investment-grade credit was the largest detractor over the quarter as spreads widened from 100 to 143 bps, generating -285 bps of excess returns. Emerging markets were also a detractor as US\$ corporate spreads widened from 286 bps to 338 bps according to the JP Morgan Broad Corporate Emerging Market Index.

The portfolio's yield curve positioning, specifically overweight the belly of the curve (5-year and 10-year rates), was a slight contributor to performance as 5-year and 10-year yields fell 43 and 36 bps, respectively, during the quarter. This compares to 30-year yields which ended the quarter 17 bps lower.

The portfolio's overweight to duration detracted from performance as yields rose; the 10-year Treasury yield rose from 2.85% to 3.05%. Yield curve positioning, specifically our overweight to the 5-year and 10-year parts of the curve, did help to offset the negative impact from duration as short-term rates rose more than long-term rates during the quarter.

Investment Outlook

This year's early expectations for synchronized growth were dashed rather quickly. Instead, we have seen 2018 become the year of the most desynchronized global growth since 1998. The US economy, supercharged with late-cycle stimulus, has gone from strength to strength; the rest of the world, challenged by trade tensions and multiple countries' idiosyncratic political risks, has gone from weakness to weakness. This divergence has led to broad-based dollar strength, higher US interest rates and accelerating risk premia in spread products

outside of the US, particularly in EM. Treasury bond market weakness in the US, in contrast to more benign global sovereign markets, has left US rates at multi-decade wides in relation to most other G10 countries.

All this unfolded before October, when fears of Fed policy errors, softening in the US housing market, ever-escalating trade tensions, Brexit and Italy fears finally led to US spread product weakness as well. Global growth has been softer, and now these multiple downside tail-risks are in full display. How could anyone be even modestly constructive amidst such gloom? What could possibly go right?

Our answer is that quite a lot can go right. Furthermore, a lot has already begun going right. Let's start with the most important bit: the fundamental underlying economic outlook. Moderating global and US growth levels, while still sturdy, imply an extremely benign inflation backdrop. The tightening of monetary conditions combined with waning effects of fiscal policy in the US contrasted with the re-introduction of both monetary and fiscal stimulus in China augur well for the resynchronization of global growth. All this should be positive for global risk markets. But will the tail-risks that are so ominous upset the apple cart? This is where caution needs to be exercised, but here too there are encouraging signs.

For more information on Western Asset visit www.westernasset.com.

Exhibit 1 Oregon Local Government Intermediate Fund

	Portfolio	Index**
4Q18 Performance*	1.21%	1.46%
2018 Performance*	1.26%	1.38%

*As of 31 Dec 18. *Performance is gross of fees. **Bloomberg Barclays U.S. Government/Credit Bond Index (1-5 year).*

© Western Asset Management Company, LLC 2019. 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 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 is authorised and regulated by the Financial Conduct Authority ("FCA"). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK and EEA countries as defined by the FCA or MiFID II rules.