Investment Highlights

Oregon Local Government Intermediate Fund

Performance Review

The portfolio slightly outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 19 basis points (bps) on a gross basis.

Market news in the second quarter of 2026 was dominated by the Middle East conflict, with financial markets driven by evolving expectations around a potential resolution. Energy prices and forecasts for central bank policy rates continued to shift throughout the period. Toward the end of the quarter, frequent flare-ups in hostilities gave way to repeated ceasefire efforts and the signing of a high-level memorandum of understanding between the US and Iran. Investors grew increasingly optimistic that an agreement between the conflicting parties would facilitate the reopening of the Strait of Hormuz, allowing for the normalization of energy flows and the easing of stagflationary fears. As a result, risk assets outperformed during the quarter, with the S&P 500 Index reaching record highs multiple times and credit spreads tightening. The US Treasury (UST) yield curve bear-flattened during the period, with short- and intermediate-term yields moving higher as the market priced in additional rate hikes for the remainder of the year.

Total nonfarm payrolls increased by 172,000 in May, slightly below the upwardly revised gain of 179,000 jobs in April (from 115,000 previously). The unemployment rate remained unchanged at 4.3% from March 2026. Inflationary pressures continued to build throughout the quarter, with headline Consumer Price Index (CPI) rising to 4.20% year-over-year (YoY) from 3.30% YoY in March, while core Personal Consumption Expenditures (PCE), the Federal Reserve's (Fed) preferred inflation measure excluding food and energy, rose to 3.40% YoY from 3.20% YoY in March.

The Fed left the target range for its policy rate unchanged at 3.50% to 3.75% at its April and June meetings. At Kevin Warsh's first Committee meeting as Fed Chair in June, while the decision itself was widely expected, the accompanying Summary of Economic Projections hawkishly surprised markets and signaled that nearly half of the Committee now believes rate hikes may be necessary in 2026 to address still-above-target inflation. During the press conference, Warsh was asked for his view on the current stance of policy and whether it remained restrictive. His candid response was that policy is currently "mixed"—restrictive for housing, but less so for financial markets. He went on to suggest that this uneven transmission of monetary policy may be the result of balance sheet policy, something that will eventually be addressed by a newly formed task force.

The European Central Bank (ECB) raised interest rates by 25 basis points (bps) in June, taking the deposit rate to 2.25%, as expected. ECB President Christine Lagarde provided little forward guidance, instead emphasizing data dependence. Growth projections were downgraded, while short-term inflation projections were upgraded. Indeed, eurozone headline inflation rose to 3.2% YoY, with some ECB officials commenting hawkishly on the prospect of future rate hikes. A large downward revision to Irish growth in Q1 led to a notable softening in the area-wide reading. In Japan, elevated wage growth and a strong Producer Price Index (PPI) led to a hawkish assessment of underlying inflation by Bank of Japan (BoJ) Deputy Governor Shinichi Uchida. Headline CPI came in as expected at 1.5% YoY, but the BoJ proceeded to raise its policy rate by 25 bps to 1.0% in June. The current Japanese government bond (JGB) purchase plan and forward guidance regarding continued interest rate normalization were maintained. Toward the end of June, Prime Minister Sanae Takaichi laid out Japan's largest-ever spending plan (JPY370 trillion by 2040), igniting further concern surrounding the fiscal outlook.

As of 30 Jun 26	Portfolio (gross)	Portfolio (net)	Index*
2Q26 Performance	0.57%	0.55%	0.38%

Bloomberg 1-5 Year US Government/Credit Bond Index
Past investment results are not indicative of future investment results. *Gross-of-fees returns are presented before management fees, but after all trading expenses. Net-of-fees performance returns are an estimate of time-weighted rate of return. The effective fee, based on a fee schedule, is deducted from the monthly gross return.*

Investment Outlook

Growth remains supported while inflation risks may abate: Growth supported by AI capex, resilient consumers, strong earnings, and pro-business policies. Inflation moderates if a fragile ME peace holds while tariff and housing pressures also abate. The labor market stabilizes in a low-hire, low-fire state. With the FOMC focused on inflation and low unemployment, monetary policy stays on hold. We hold a modest overweight to duration, curve steepeners, and look for opportunities to add to credit exposure.

Global fixed-income markets are navigating heightened uncertainty driven by geopolitical tensions in the Middle East, rapid technological change and increased scrutiny of private credit markets. Energy-related supply disruptions have lifted near-term inflation and triggered a sharp reset in market expectations for central bank policy, with investors pricing rate hikes rather than the cuts anticipated earlier in the year.

While near-term inflation pressures are evident, longer-term inflation expectations remain well anchored, and we believe the magnitude of the recent rate repricing may be somewhat overdone. Global growth is expected to moderate, with the US remaining relatively more resilient than other regions due to energy independence, fiscal support and strong underlying fundamentals.

Despite tight valuations across spread sectors, credit fundamentals remain supportive. We favor selectively adding short-end duration and taking advantage of high-quality opportunities in corporate new issuance, AI-related financing activity and select areas of securitized credit, including CMBS and CLOs.

For more information on Western Asset, visit westernasset.com

Attribution is calculated using prices sourced from independent pricing vendors or brokers in accordance with Western Asset's approved pricing hierarchy. Therefore, performance presented here may differ from performance calculated by official sources for benchmarks and for funds that use a third-party administrator.

Past performance does not predict future returns. These materials should not be deemed to be a prediction or projection of future performance.
These materials are intended for investment professionals including professional clients, eligible counterparties, and qualified or wholesale investors only.

These materials are intended for investment professionals including professional clients, eligible counterparties, and qualified or wholesale investors only.

These materials have been produced for illustrative and informational purposes only. These materials contain Western Asset's opinions and beliefs as of the date designated on the materials; these views are subject to change and may not reflect real-time market developments and investment views.

Third party data may be used throughout the materials, and this data is believed to be accurate to the best of Western Asset's knowledge at the time of publication, but cannot be guaranteed. These materials may also contain strategy or product awards or rankings from independent third parties or industry publications which are based on unbiased quantitative and/or qualitative information determined independently by each third party or publication. In some cases, Western Asset may subscribe to these third party's standard industry services or publications. These standard subscriptions and services are available to all asset managers and do not influence rankings or awards in any way.

Investment strategies or products discussed herein may involve a high degree of risk, including the loss of some or all capital. Investments in any products or strategies described in these materials may be volatile, and investors should have the financial ability and willingness to accept such risks.

Unless otherwise noted, investment performance contained in these materials is reflective of a strategy composite. All other strategy data and information included in these materials reflects a representative portfolio which is an account in the composite that Western Asset believes most closely reflects the current portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite are available upon request.

Statements in these materials should not be considered investment advice. References, either general or specific, to securities and/or issuers in the materials are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendation to purchase or sell such securities. Employees and/or clients of Western Asset may have a position in the securities or issuers mentioned.

These materials are not intended to provide, and should not be relied on for, accounting, legal, tax, investment or other advice. The recipient should consult its own counsel, accountant, investment, tax, and any other advisers for this advice, including economic risks and merits, related to making an investment with Western Asset. The recipient is responsible for observing the applicable laws and regulations of their country of residence.

Founded in 1971, Western Asset Management Company is a global fixed-income investment manager with offices in Pasadena, New York, London, Singapore, Tokyo, and Melbourne. Western Asset is a wholly owned subsidiary of Franklin Resources, Inc. but operates autonomously. Western Asset is comprised of five legal entities across the globe, each with distinct regional registrations: Western Asset Management Company, LLC, a registered Investment Adviser with the Securities and Exchange Commission; Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services License 303160 regulated by the Australian Securities & Investments Commission (ASIC); Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services License 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 authorised and regulated by the Financial Conduct Authority ("FCA") (FRN 145930). Effective February 2, 2026, Franklin Templeton Investimentos (Brasil) Ltda. and Western Asset Management Company Limitada merged under the corporate name of Franklin Templeton Brasil Ltda. 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.

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