Western Asset Management- Core Full Discretion
Global Fixed: BB Aggregate Benchmark

For the month of: **August** **2021**

Manager Performance Calculations

** Annualized returns*

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
Western	0.07%	1.93%	2.63%	7.32%	4.98%
BB Aggregate	-0.19%	1.63%	-0.08%	5.43%	3.11%

Performance Attribution & Strategy Comments

Performance Review: The portfolio outperformed its benchmark in August. The portfolio returned 0.07% while its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, returned -0.19%.

Outlook Summary: US economic data reflected an economy that continues to recover but with a slowing rate of growth. Nonfarm payrolls increased by 943,000 in July, which was the largest gain since August 2020 and the unemployment rate fell from 5.9% to 5.4%. The economy has created 4.3 million jobs this year but employment is still 5.7 million jobs below its peak in February 2020. Other economic data was more downbeat for July. Retail sales declined, -1.1% for the month, much more than the Bloomberg median survey of -0.3%, and housing starts dropped, -7.0% from last month. Consumer confidence slipped as multiple sentiment readings disappointed to the downside. In particular, the University of Michigan Consumer Sentiment Index fell to 70.2 from 81.2 the previous month. This represents the lowest level since 2011 and there have been only two larger declines in the index over the past 50 years. On balance, these disappointments have perhaps outweighed the positive employment report, and the Citi Economic Surprise Index is now in negative territory for the first time in over a year.

Much of the decline in consumer sentiment can be tied to the surging Covid delta variant which has once again brought Covid risks front and center for investors and policymakers. While the delta surge is likely to have a much smaller impact on economic activity than any of the previous Covid surges, it is nonetheless a straightforward negative factor that policymakers and investors need to incorporate into their outlooks. Wall Street economists have begun to lower expectations for US growth in Q3, and it seems likely the Federal Reserve (Fed) staff is moving in the same direction. The global impacts of the delta strain are also worth noting. In particular, the delta variant appears to be having a larger impact in countries with lower levels of immunity due to either lower vaccine availability or lower levels of previous infections. While the Fed is first and foremost focused on the US economic data, it cannot afford to totally ignore the global aspects of the pandemic, which at the moment are concerning.

Investors were focused on the Fed’s Jackson Hole meeting for clues about the pending tapering of its asset purchases. Fed Chair Jerome Powell’s speech largely reiterated the Federal Open Market Committee’s (FOMC) July meeting minutes that the inflation criteria have been met while the employment criteria have not. In contrast to much of the recent hawkish Fed speak, Powell warned of “ill-timed policy moves” that could slow both hiring and economic activity, and push inflation lower than desired. Finally, Powell reiterated that the “timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test.” Factoring in the economic conditions and the softer considerations around scaling back accommodation leaves us with the following picture of the Fed’s base case, at least as it stands currently: At the September meeting the Fed likely plans to provide “advance notice” by saying that tapering will be announced at a “coming meeting”; then in either November or December the Fed likely plans to announce a decision to taper purchases; finally, the Fed likely plans to reduce asset purchases in the month following the final announcement.

Manager Style Summary

Western manages a customized portfolio for PERSI, which falls outside of their traditional product offerings. While the product is called, "Core Full Discretion" (one of their traditional products), Western has the flexibility to invest in global inflation-linked bonds and to take bigger bets where they see the opportunity. As such, this portfolio is more volatile than the traditional underlying product. This global mandate allows Western to hold foreign, non-dollar denominated securities, take currency positions, and enter into futures, options and swaps contracts.

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Portfolio Guideline Compliance

Portfolio Guideline:	Western	Min	Max	Compliance
C. Weighted average duration including futures positions	7.15	-30.00	30.00	ok
C4 (2): Sector Allocation				
a. Non-dollar denominated securities		0%	40%	ok
Un-hedged non-dollar denominated securities		0%	20%	ok
b. U.S. securities rated below investment grade (BIG)		0%	40%	ok
c. Non-dollar, Non-U.S. securities rated BIG		0%	20%	ok
d. Non-dollar denominated+emerging mkt+high yield		0%	50%	ok
C4 (3): Issuer				
a. Guaranteed by US gov, agencies, gov-sponsored corp or G-7		0%	100%	ok
b. Other national governments - limit per issuer		0%	10%	ok
c. Private MBS/ABS - limit per issuer		0%	10%	ok
If collateral is credit-independent of issuer & security's credit enhancement is generated internally - limit per is		0%	25%	ok
d. Obligations of other issuers subject to per issuer limit		0%	5%	ok
C4 (5): Credit				
No more than 40% of portfolio below Baa3 or BBB-/A2 or P2		0%	40%	ok
C4 (7): Derivatives				
Original futures margin and options premiums, exclusive any in-the-money portion of the premiums		0%	5%	ok
F2. Annual Turnover	43%	100%	200%	check
The portfolio is in compliance with all other aspects of the Portfolio Guidelines			☑ Yes	☐ No

Manager Explanations for Deviations from Portfolio Guidelines

F2. Annual Turnover: The transactions were the intent of the portfolio manager and the account is in line with strategy's expected turnover

Total Firm Assets Under Management ($m) as of: Qtr 2 $ 491,347

Organizational/Personnel Changes

N/A

Account Turnover

Gained:	Number of Accounts:	7	Total Market Value ($m):	$ 122.0
Lost:	Number of Accounts:	5	Total Market Value ($m): -	$ 93.0
	Reason(s): Strategic liquidation			