

**Hand Composite Employee Benefit Trust**  
**Western Asset Global Strategic Fixed Income Fund**  
Independent Auditor's Report and Financial Statements  
December 31, 2014



# Hand Composite Employee Benefit Trust

## December 31, 2014

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## Independent Auditor's Report

Board of Directors  
Hand Composite Employee Benefit Trust  
Houston, Texas

We have audited the accompanying financial statements of Western Asset Global Strategic Fixed Income Fund, included in the Hand Composite Employee Benefit Trust ("Trust" or "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as of December 31, 2014, the related statements of operations and changes in net assets for the period December 8, 2014 to December 31, 2014, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Asset Global Strategic Fixed Income Fund as of December 31, 2014, and the results of its operations and the changes in its net assets for the period December 8, 2014 to December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment purchases and sales listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**BKD, LLP**

Houston, Texas  
June 5, 2015

**Hand Composite Employee Benefit Trust**  
**Statement of Assets and Liabilities – Selected Fund**  
**December 31, 2014**

	<b><u>Western Asset Global Strategic Fixed Income Fund</u></b>
<b>Assets</b>	
Investments, at cost	\$ 81,846,585
Investments, at fair value	\$ 81,781,806
Receivable from broker - variation margin on centrally cleared swap contracts	31,180
Deposits with brokers for centrally cleared swap contracts	1,485,000
Receivable for:	
Capital shares sold	1,895
Dividend and interest	336,716
Investment advisor waived fees	25,654
Total assets	<u>\$ 83,662,251</u>
<b>Liabilities</b>	
Due to custodian	\$ 1,068,413
Payable for capital shares redeemed	10,909
Accounts payable and accrued liabilities	53,843
Total liabilities	<u>\$ 1,133,165</u>
<b>Net Assets Held for Participants - Class R3</b>	<u>\$ 82,529,086</u>
<b>Units Outstanding - Class R3</b>	<u>8,263,665</u>
<b>Net Assets Held for Participants - Class R3</b>	<u>\$ 9.99</u>

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments**  
**Western Asset Global Strategic Fixed Income Fund**  
**December 31, 2014**

Number of Shares		Cost	Fair Value
<i><u>Short Term Investments</u></i>			
62,479,981	State Street Institutional Investment Trust Treasury Money Market Fund, Premier Class 0.000%	\$ 62,479,981	\$ 62,479,981
	Total Short Term Investments	76.40% 62,479,981	62,479,981

Principal Amount †		Cost	Fair Value
<i><u>Collateralized Mortgage Obligations</u></i>			
64,860	Federal Home Loan Mortgage Corp. Series 3422, Class AI, IO 2.5% 01/15/2038	628	621
164,640	Federal National Mortgage Association Series 2005-88, Class IP, IO 1.685% 10/25/2035	10,059	9,867
227,648	Federal National Mortgage Association Series 2006-118, Class IP1, IO 3.20% 12/25/2036	18,348	17,999
208,708	Federal National Mortgage Association Series 2006-118, Class IP2, IO 3.20% 12/25/2036	12,327	12,095
132,536	Federal National Mortgage Association Series 2006-28, Class 1P, IO 1.783% 04/25/2036	9,068	8,886
172,722	Federal National Mortgage Association Series 2006-59, Class IP, IO 2.37% 07/25/2036	14,034	13,772
1,021,533	Government National Mortgage Association Series 2012-34, Class SD, IO 5.889% 03/16/2042	201,755	201,416
206,133	Government National Mortgage Association Series 2013-150, Class IA, IO2.973% 11/20/2042	11,286	9,492
163,754	Government National Mortgage Association Series 2014-22, Class IA, IO2.625% 09/20/2043	7,608	7,628
	Total Collateralized Mortgage Obligations	0.34% 285,113	281,776

*Corporate Bonds*

*Consumer Discretionary*

60,000	General Motors Financial Co., Inc. Company Guarantee 4.375% 09/25/2021	62,684	62,625
	Total Consumer Discretionary	0.08% 62,684	62,625

*Consumer Staples*

200,000	Marfrig Holding Europe BV Company Guarantee REGS 6.875% 06/24/2019	183,869	186,000
	Total Consumer Staples	0.23% 183,869	186,000

*Energy*

600,000	Ecopetrol S.A. Sr Unsecured 4.125% 01/16/2025	559,569	570,000
100,000	Ecopetrol S.A. Sr Unsecured 5.875% 05/28/2045	93,129	92,500
280,000	Kinder Morgan, Inc. REGS 5.625% 11/15/2023	306,806	299,719
450,000	Oleoducto Central S.A. Sr Unsecured REGS 4.00% 05/07/2021	428,697	429,750
250,000	Petrobras Global Finance BV Company Guarantee 6.25% 03/17/2024	238,535	237,885
600,000	Petrobras International Finance Co. S.A. Company Guarantee 5.375% 01/27/2021	576,152	555,942
870,000	Petroleos Mexicanos Company Guarantee REGS 4.25% 01/15/2025	850,020	864,345
210,000	Puma International Financing S.A. Company Guarantee REGS 6.75% 02/01/2021	207,384	203,490
450,000	Reliance Holding USA, Inc. Company Guarantee REGS 5.40% 02/14/2022	493,025	487,489
	Total Energy	4.57% 3,753,317	3,741,120

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**Western Asset Global Strategic Fixed Income Fund (Continued)**  
**December 31, 2014**

Principal Amount †		Cost	Fair Value
<b><u>Corporate Bonds (continued)</u></b>			
<b><i>Financials</i></b>			
90,000	Bank of America Corp. Subordinated 4.20% 08/26/2024	\$ 91,483	\$ 91,685
210,000	BBVA Banco Continental S.A. Subordinated REGS 5.25% 09/22/2029	213,039	213,045
200,000	Goodman HK Finance Company Guarantee REGS 4.375% 06/19/2024	204,247	203,168
200,000	HSBC Holdings PLC Subordinated 4.25% 03/14/2024	206,860	208,116
320,000	Industrial & Commercial Bank of China Ltd. Sr Unsecured 3.231% 11/13/2019	322,883	321,346
250,000	Royal Bank of Scotland Group PLC Subordinated 5.125% 05/28/2024	253,721	254,298
200,000	Standard Chartered PLC Subordinated REGS 5.70% 03/26/2044	209,084	208,039
	Total Financials	1.83% 1,501,317	1,499,697
<b><i>Industrials</i></b>			
550,000	Cemex Finance LLC Sr Secured REGS 9.375% 10/12/2022	612,567	613,250
	Total Industrials	0.75% 612,567	613,250
<b><i>Materials</i></b>			
400,000	OCP S.A. Sr Unsecured REGS 5.625% 04/25/2024	418,920	420,000
210,000	Volcan Cia Minera SAA Company Guarantee REGS 5.375% 02/02/2022	206,859	207,375
	Total Materials	0.77% 625,779	627,375
<b><i>Telecommunication Services</i></b>			
200,000	Bharti Airtel International Netherlands BV Company Guarantee REGS 5.35% 05/20/2024	216,364	216,384
570,000	Perusahaan Listrik Negara PT Sr Unsecured REGS 5.50% 11/22/2021	602,606	594,225
210,000	Turk Telekomunikasyon AS Sr Unsecured REGS 3.75% 06/19/2019	210,418	210,630
	Total Telecommunication Services	1.25% 1,029,388	1,021,239
<b><i>Utilities</i></b>			
220,000	Transportadora de Gas del Peru S.A. Sr Unsecured REGS 4.25% 04/30/2028	211,212	212,300
	Total Utilities	0.26% 211,212	212,300
	Total Corporate Bonds	9.74% 7,980,133	7,963,606
<b><u>Foreign Government</u></b>			
<b><i>Brazil</i></b>			
BRL	3,000,000 Brazil Notas do Tesouro Nacional 10.00% 01/01/2017	1,101,062	1,074,997
	Total Brazil	1.31% 1,101,062	1,074,997
<b><i>China</i></b>			
CNY	4,000,000 China Government Bond Sr Unsecured 1.80% 12/01/2015	634,808	636,882
	Total China	0.78% 634,808	636,882

See Notes to Financial Statements

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**Western Asset Global Strategic Fixed Income Fund (Continued)**  
**December 31, 2014**

Principal Amount †		Cost	Fair Value
<i><u>Foreign Government (continued)</u></i>			
<i><b>Hungary</b></i>			
450,000	Hungary Government International Bond Sr Unsecured 5.375% 03/25/2024	\$ 487,043	\$ 487,125
130,000	Hungary Government International Bond Sr Unsecured 5.75% 11/22/2023	145,517	143,975
	Total Hungary	0.77% 632,560	631,100
<i><b>Indonesia</b></i>			
400,000	Indonesia Government International Bond Sr Unsecured REGS 5.875% 01/15/2024	455,314	452,000
IDR5,071,000,000	Indonesia Treasury Bond Sr Unsecured 7.875% 04/15/2019	405,196	412,006
	Total Indonesia	1.06% 860,510	864,006
<i><b>Kenya</b></i>			
200,000	Kenya Government International Bond REGS 5.875% 06/24/2019	204,475	202,500
	Total Kenya	0.25% 204,475	202,500
<i><b>Mexico</b></i>			
MXN 38,000,000	Mexican Bonos 6.50% 06/09/2022	2,714,263	2,700,472
MXN 10,000,000	Mexican Bonos 8.00% 06/11/2020	771,450	762,876
	Total Mexico	4.24% 3,485,713	3,463,348
<i><b>Nigeria</b></i>			
200,000	Nigeria Government International Bond Sr Unsecured REGS 5.125% 07/12/2018	200,000	198,000
	Total Nigeria	0.24% 200,000	198,000
<i><b>Paraguay</b></i>			
390,000	Republic of Paraguay REGS 6.10% 08/11/2044	413,392	415,350
	Total Paraguay	0.51% 413,392	415,350
<i><b>South Africa</b></i>			
200,000	South Africa Government International Bond Sr Unsecured 5.875% 09/16/2025	225,412	225,250
	Total South Africa	0.28% 225,412	225,250
<i><b>Sri Lanka</b></i>			
200,000	Sri Lanka Government International Bond Sr Unsecured REGS 6.00% 01/14/2019	209,149	208,000
	Total Sri Lanka	0.25% 209,149	208,000



**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**Western Asset Global Strategic Fixed Income Fund (Continued)**  
**December 31, 2014**

Principal Amount †		Cost	Fair Value
<u><i>Foreign Government (continued)</i></u>			
<i>Turkey</i>			
300,000	Turkey Government International Bond Sr Unsecured 5.625% 03/30/2021	\$ 329,979	\$ 329,625
250,000	Turkey Government International Bond Sr Unsecured 7.375% 02/05/2025	309,569	311,095
	Total Turkey	0.78% 639,548	640,720
	Total Foreign Government	10.47% 8,606,629	8,560,153
<u><i>U.S. Government &amp; Agency Obligations</i></u>			
<i>U.S. Government Obligations</i>			
2,500,000	United States Treasury Notes 1.625% 12/31/2019	2,494,729	2,496,290
	Total U.S. Government Obligations	3.05% 2,494,729	2,496,290
	Total U.S. Government & Agency Obligations	3.05% 2,494,729	2,496,290
	Total Investments	100.00% \$ 81,846,585	\$ 81,781,806

† Principal amount denominated in U.S. dollars, unless otherwise noted.

*Abbreviations used in this schedule*

BRL Brazilian Real  
CNY Chinese Yuan Renminbi  
IDR Indonesian Rupiah  
MXN Mexican Peso

**Hand Composite Employee Benefit Trust**  
**Statement of Operations – Selected Fund**  
**Period Ended December 31, 2014**

	<b>Western Asset Global Strategic Fixed Income Fund*</b>
<b>Income</b>	
Interest (net of foreign withholding taxes of \$1,514)	\$ 35,790
Total income	35,790
<b>Expenses</b>	
Trustee and administrative Class R3	33,342 20,501
Total expenses before reimbursement	53,843
Reimbursement of fees	(25,654)
Net expenses	28,189
<b>Net Investment Income</b>	7,601
<b>Net Realized Gains (Losses) on Investments, Swap Contracts and Foreign Currency</b>	
Net realized gains on investments	932
Net realized gains on swap contracts	30,878
Net realized losses on foreign currency transactions	(3,184)
Net realized gains on investments, swap contracts and foreign currency	28,626
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	
Investments	(64,779)
Swap contracts	(78,863)
Foreign currencies	(2,380)
Change in net unrealized appreciation (depreciation)	(146,022)
Net realized and unrealized losses on investments, swap contracts and foreign currency	(117,396)
<b>Net Decrease in Net Assets Resulting From Operations</b>	\$ (109,795)

\* For the period December 8, 2014 (inception date) to December 31, 2014.

**Hand Composite Employee Benefit Trust**  
**Statement of Changes in Net Assets – Selected Fund**  
**Period Ended December 31, 2014**

	<b>Western Asset Global Strategic Fixed Income Fund*</b>
<b>Operations</b>	
Net investment income	\$ 7,601
Net realized gains	28,626
Change in net unrealized appreciation (depreciation)	<u>(146,022)</u>
Net decrease in net assets from operations	(109,795)
<b>Net Increase in Net Assets From Participant Unit Transactions</b>	<u>82,638,881</u>
<b>Increase in Net Assets</b>	82,529,086
<b>Net Assets</b>	
Beginning of period	<u>-</u>
End of period	<u>\$ 82,529,086</u>

\* For the period December 8, 2014 (inception date) to December 31, 2014.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2014

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### ***Nature of Operations***

Hand Composite Employee Benefit Trust ("HB&T" or "the Trust") was created in order to provide broad and uniform diversification programs for pension and profit sharing plans which, having complied with the requirements of the Internal Revenue Code (the IRC), are exempt from taxation under the provisions of the IRC. The Trust is comprised of 91 portfolios (the Funds); the financial statements of one of those funds, Western Asset Global Strategic Fixed Income Fund (the Fund), are included in this report.

Each class of the Fund has equal rights as to earnings and assets except that each class bears different distribution, shareholder servicing and transfer agent expenses. Income, expenses (other than expenses attributable to a specific class) and realized and unrealized gains or losses on investments and foreign currency are allocated to each class of units based on its relative net assets.

The Fund's date of inception was December 8, 2014.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of investment income and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Investment Valuation***

All investments in securities are recorded at their estimated fair value. Transfers in and out of Level 1 (quoted market prices), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

#### ***Investment Transactions***

Investment transactions are accounted for on trade date. Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are reported on the identified cost basis.

#### ***Foreign Currency***

Investment securities and other assets and liabilities denominated in, or expected to settle in, foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2014

The Fund isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, including investments in securities at December 31, 2014, resulting from changes in the exchange rates.

### **Swap Agreements**

The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with other portfolio transactions. Swap agreements are privately negotiated in the over-the-counter market (OTC Swaps) or may be executed on a registered exchange (Centrally Cleared Swaps). Unlike Centrally Cleared Swaps, the Fund has credit exposure to the counterparties of OTC Swaps.

Swap contracts are marked-to-market daily, and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of Centrally Cleared Swaps, if any, is recorded as a receivable or payable for variation margin on the statement of assets and liabilities. Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts identified in the schedule of investments and restricted cash, if any, is identified on the statement of assets and liabilities. Risks may exceed amounts recorded in the statement of assets and liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements.

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the statement of assets and liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the statement of operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the statement of operations.

The Fund's maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of December 31, 2014, the total notional value of all credit default swaps to sell protection is \$33,200,000. This amount would be offset by the value of the swap's reference entity, upfront premiums received on the swap and any amounts received from the settlement of a credit default swap where the Fund bought protection for the same referenced security/entity.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2014

For average notional amounts of swaps held during the period ended December 31, 2014, see Note 8.

#### ***Credit Default Swaps***

The Fund enters into credit default swap (CDS) contracts for investment purposes to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (*i.e.*, to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the notes to financial statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract, as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk as the protection buyer is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2014

risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the statement of assets and liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

### ***Investment Income and Distribution of Income***

Dividend income less foreign taxes withheld, if any, is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Investment income is allocated ratably on the valuation dates among all participants. No distributions are made to participants in the Fund until units owned are redeemed, at which time the market value of redeemed units is distributed. Investment income and realized gains (if any) earned by the Fund are reinvested, thereby increasing the respective unit values.

### ***Valuation of Participants' Interest***

Units of participation may be purchased or redeemed on the valuation dates at the fair value per unit on such valuation dates. The Fund is valued daily.

### ***Federal Income Taxes***

The Fund complies with the requirements under Section 501(a) of the IRC and apportion all of its taxable income to its participants. Therefore, no federal income tax provision is required.

### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

### ***Investment Management Advisors***

The investment management advisor for the Fund is Western Asset Management Company.

**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
**December 31, 2014**

**Note 2: Swap Contracts**

At December 31, 2014, the Fund held the following open swap contracts:

<b>Centrally Cleared Credit Default Swaps On Credit Indices - Sell Protection</b>						
<b>Swap Counterparty (Reference Entity)</b>	<b>Notional Amount</b>	<b>Termination Date</b>	<b>Periodic Payments Received By the Fund</b>	<b>Market Value</b>	<b>Upfront Premiums Paid</b>	<b>Unrealized Depreciation</b>
Merrill Lynch (Markit CDX.NA.HY.23 Index)	\$ 33,200,000	12/20/19	5.000% Quarterly	\$ 2,061,875	\$ 2,140,738	\$ (78,863)

**Note 3: Investment Advisory Fees and Other Transactions With Affiliates**

The Fund is charged an administrative fee by HB&T for trustee/administrative services (fund accounting services, transfer agency services, trustee services, etc.). The Fund has also entered into investment advisory and service agreements with a third-party advisor. These fees compensate the advisor for the services it provides and for expenses borne by the advisor under the agreement.

During the period ended December 31, 2014, the investment advisor voluntarily reimbursed the Fund for a portion of its expenses.

The following table indicates the fees charged to the Fund and the various classes of units within the Fund (as a percentage of net assets). These charges are calculated using the Fund's prior day's total net assets.

<b>Fund</b>	<b>Trustee/ Administrative Fees</b>	<b>Investment Management Fees</b>	<b>Total Fees</b>
<b>Western Asset Global Strategic Fixed Income Fund:</b>			
Class R3	0.15%	0.40%	0.55%



**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
**December 31, 2014**

**Note 4: Financial Highlights**

	<b>Western Asset Global Strategic Fixed Income Fund<sup>1</sup></b>	
	<b>Class R3</b>	
Net asset value, beginning of period	\$	10.00
Net investment income		0.00 <sup>2</sup>
Net realized and unrealized losses		(0.01)
Net decrease from investment operations		(0.01)
Net asset value, end of period	\$	9.99
Total return		(0.10)%
Ratio to average net assets <sup>3</sup> :		
Net investment income		0.15 %
Expenses without reimbursement		1.05 %
Expenses with reimbursement		0.55 %

<sup>1</sup> For the period December 8, 2014 (inception date) to December 31, 2014.

<sup>2</sup> Amount represents less than \$0.005 per share.

<sup>3</sup> Annualized.

**Note 5: Participant Unit Transactions**

	<b>Western Asset Global Strategic Fixed Income Fund<sup>1</sup></b>	
	<b>Units</b>	<b>Dollars</b>
<b>Class R3:</b>		
Proceeds from sales of units	8,470,190	\$ 84,701,466
Cost of units redeemed	(206,525)	(2,062,585)
Net increase in total net assets from participant transactions	8,263,665	\$ 82,638,881

<sup>1</sup> For the period December 8, 2014 (inception date) to December 31, 2014.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2014

#### Note 6: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value.

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of assets and liabilities, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended December 31, 2014.

**Short Term Investments.** Short term investments, including money market funds, for which market quotations are readily available, are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy.

**Collateralized Mortgage Obligations and Corporate Bonds.** The fair value of collateralized mortgage obligations and corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer and credit default swap spreads adjusted for any basis difference between cash and derivative instruments. Collateralized mortgage obligations and corporate bonds are categorized as Level 2 in the hierarchy.

**Foreign Government Obligations.** Foreign government obligations are valued using models that incorporate foreign market observable data, such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data. Certain securities are valued principally using dealer quotations. These securities are categorized as Level 2 in the hierarchy.

**U.S. Government Obligations.** U.S. government obligations are valued using a model that incorporates market observable data, such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data. Certain securities are valued principally using dealer quotations. U.S. government obligations are categorized as Level 2 in the hierarchy.

**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
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**Credit Default Swaps.** The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014.

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Western Asset Global Strategic Fixed Income Fund</b>				
Financial Instruments - Assets:				
Short Term Investments	\$ 62,479,981	\$ 62,479,981	\$ -	\$ -
Collateralized Mortgage Obligations	281,776	-	281,776	-
Corporate Bonds	7,963,606	-	7,963,606	-
Foreign Government	8,560,153	-	8,560,153	-
U.S. Government Obligations	<u>2,496,290</u>	<u>-</u>	<u>2,496,290</u>	<u>-</u>
Total	<u>\$ 81,781,806</u>	<u>\$ 62,479,981</u>	<u>\$ 19,301,825</u>	<u>\$ 0</u>
Derivative Instruments - Liabilities:				
Centrally cleared credit default swaps on credit indices - sell protection	<u>\$ 78,863</u>	<u>\$ 0</u>	<u>\$ 78,863</u>	<u>\$ 0</u>

**Note 7: Risk Factors**

***Investment Securities Risk***

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of assets and liabilities.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2014

#### **Foreign Securities Risk**

Securities traded in foreign markets have often (though not always) performed differently from securities traded in the United States. However, such investments often involve special risks not present in U.S. investments that can increase the chances that the Fund will lose money. In particular, the Fund is subject to the risk that because there may be fewer investors on foreign exchanges and a smaller number of securities traded each day, it may be more difficult for the Fund to buy and sell securities on those exchanges. In addition, prices of foreign securities may go up and down more than prices of securities traded in the United States.

#### **Currency Risk**

Securities and other instruments in which the Fund invests may be denominated or quoted in currencies other than the U.S. dollar. Changes in foreign currency exchange rates may affect the value of the Fund's portfolio. Because the Fund's assets are primarily invested in securities of foreign countries, the U.S. dollar equivalent of the Fund's net assets would be adversely affected by reductions in the value of the foreign currencies relative to the U.S. dollar. For this reason, changes in foreign currency exchange rates can affect the value of the Fund's portfolio. Generally, when the U.S. dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. dollars. Conversely, when the U.S. dollar decreases in value against a foreign currency, a security denominated in that currency gains value because the currency is worth more U.S. dollars. This risk, generally known as "currency risk," means that a strong U.S. dollar may reduce returns for U.S. investors in foreign stocks, while a weak U.S. dollar may increase those returns.

#### **Note 8: Derivative Instruments and Hedging Activities**

Below is a table, grouped by derivative type that provides information about the fair value and the location of derivatives within the statement of assets and liabilities at December 31, 2014.

<b>Liability Derivatives<sup>(1)</sup></b>	
	<b>Credit Risk</b>
Centrally cleared swap contracts <sup>(2)</sup>	\$78,863

<sup>(1)</sup> Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

<sup>(2)</sup> Includes cumulative appreciation (depreciation) of centrally cleared swap contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the statement of assets and liabilities.

**Hand Composite Employee Benefit Trust**  
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The following tables provide information about the effect of derivatives and hedging activities on the Fund's statement of operations for the period ended December 31, 2014. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

<b>Amount of Realized Gain on Derivatives Recognized</b>	
	<b>Credit Risk</b>
Swap contracts	\$ 30,878
<b>Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized</b>	
	<b>Credit Risk</b>
Swap contracts	\$ (78,863)

During the period ended December 31, 2014, the volume of derivative activity for the Fund was as follows:

	<b>Average Notional Balance</b>
Credit default swap contracts (to sell protection)	\$ 33,200,000

The following table presents, by financial instrument, the Fund's derivative assets net of the related collateral received by the Fund at December 31, 2014:

	<b>Gross Amount of Derivative Assets in the Statement of Assets and Liabilities<sup>(1)</sup></b>	<b>Collateral Received</b>	<b>Net Amount</b>
Centrally cleared swap contracts <sup>(2)</sup>	\$ 31,180	\$ 0	\$ 31,180

<sup>(1)</sup> Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the statement of assets and liabilities.

<sup>(2)</sup> Amount represents the current day's variation margin as reported in the statement of assets and liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

## **Supplemental Information**

**Hand Composite Employee Benefit Trust**  
**Schedule of Investment Purchases and Sales – Selected Fund**  
**Western Asset Global Strategic Fixed Income Fund**  
**Period Ended December 31, 2014**

<b>Purchases</b>			
<b>Investment Class</b>	<b>Cost</b>		
Collateralized Mortgage Obligations	\$	283,910	
Corporate Bonds		8,487,438	
Foreign Government		8,607,459	
U.S. Government Obligations		2,494,727	
Total Investments Purchased	\$	19,873,534	
<b>Sales</b>			
<b>Investment Class</b>	<b>Proceeds</b>	<b>Cost</b>	<b>Gain</b>
Corporate Bonds	\$ 507,678	\$ 506,746	\$ 932