



Western Asset Short Duration High Income Fund

United States - Retail

Class A
December 31, 2024

Product Commentary

Performance Review

- With interest rates rising sharply, the US fixed income market generated weak results during the fourth quarter and posted a modest gain for the year. The economy remained largely resilient and inflation continued to moderate, although it remained higher than the Federal Reserve's¹ 2% target. While the US central bank lowered interest rates twice during the quarter, it moderated its expectations for rate cuts in 2025. All told, both short- and long-term Treasury yields rose sharply and the overall US bond market, as measured by the Bloomberg U.S. Aggregate Index², returned -3.06% during the quarter, paring its 2024 gain to a modest 1.25%. In contrast, the Bloomberg Corporate High Yield 2% Issuer Cap Index³ returned 0.17% during the fourth quarter and 8.19% in 2024.

QUARTERLY KEY PERFORMANCE DRIVERS

	Allocation	Security Selection
HELPED	Underweight CCC and below rated securities	Transportation
	Overweight transportation/underweight capital goods	Technology
	Structured product positioning	—
HURT	Overweight investment-grade credits	Consumer non-cyclicals
	Underweight basic industries	Communications
	Overweight consumer cyclicals	—

- Underweight CCCs and lower-rated securities contributed to performance.
- Overweight transportation and underweight capital goods were beneficial.
- Issue selection within the transportation (overweight Spirit, American, VistaJet) and technology (overweight ViaPath Technologies) sectors were additive for results.
- Structured products positioning contributed to results.
- Overweight investment-grade rated securities detracted from performance.
- Underweight basic industry and overweight consumer cyclicals were headwinds for returns.
- Issue selection within the consumer non-cyclical (underweight MPH Acquisition Holdings) and communications (underweight iHeart) sectors were a drag on performance.

Outlook & Strategy

- Our base case is for further moderation in global growth. Within high yield, the potential for total returns at mid- to high-single-digit yields remains relatively attractive compared to equity and other higher-volatility alternatives. Spreads still offer a premium likely in excess of default risk, with our expectations for default rates to be similar to last year—about 4% on an issuer-weighted basis and 1%–2% less on a par-weighted basis.
- Leverage and interest coverage for high-yield issuers have illustrated resilience, with supportive balance sheets and mostly conservative management teams as growth moderates. From a technical perspective, we expect continued demand to persist from both institutions and retail investors as they search for incremental yield in their portfolios, especially as interest rates on cash and government bonds decline.
- We are still seeing opportunities in “rising-star” candidates and a robust primary market at attractive concessions. In terms of industry positioning, we maintain a “reopening trade” bias at the margin, with more modest overweights to sectors like airlines and cruise lines, as well as opportunities in the energy sector, particularly exploration and production companies.

1. The Federal Reserve (“Fed”) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

2. The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices. Important data provider notices and terms available at www.franklintempletondatasources.com.

3. The **Bloomberg Corporate High Yield 2% Issuer Capped Index** measures the USD-denominated, high-yield, fixed-rate corporate bond market and limits each issuer to 2% of the index.

Fund Details

Inception Date	09/02/1986
Benchmark	Bloomberg US High Yield 1-5 Year Cash Pay 2% Constrained Index

Fund Description

Seeks high current income while minimizing interest rate volatility exposure via short duration, high income debt, including floating-rate instruments. Uses the global breadth of Western Asset's investment platform, fundamental value-oriented investment philosophy and a process that combines top down macro economic views with bottom up fundamental research. Income investors seeking high current income and lower sensitivity to rising interest rates may find this fund appropriate.

Performance Data

Average Annual Total Returns⁴ (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Class A - With Sales Charges ^a	-2.44	-1.26	6.03	3.08	3.87	3.75	5.67	11/06/1992
Class A - Without Sales Charges ^a	-0.23	0.97	8.47	3.86	4.34	3.99	5.74	11/06/1992
Bloomberg US High Yield 1-5 Year Cash Pay 2% Constrained Index	-0.13	0.70	8.64	4.68	4.92	5.08	-	-

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit www.franklintempleton.com.

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Share Class Details

	CUSIP	Ticker	Sales Charges		Expenses		30-Day SEC Yields ⁵	
			Max	CDSC	Gross	Net	Without Waiver	With Waiver
Class A	52469F630	SHIAX	2.25%	—	0.97%	0.97%	6.61%	6.61%

Bloomberg U.S. High Yield 1-5 Yr Cash Pay 2% Constrained Index is an index that measures the market of U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bonds. The index follows the same rules as the uncapped index but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro-rata basis. This index only allows issues with a remaining maturity of one to five years. Pay-in-kinds and partial pay-in-kinds are excluded. Source: Bloomberg Indices.

Investment Team

Western Asset is one of the world's leading active fixed-income managers, delivering long-term fundamental value investment solutions to clients for over half a century. Founded in 1971, Western Asset offers clients deep expertise across the range of global fixed-income sectors from nine offices located in key financial markets.

4. Periods shorter than one year are shown as cumulative total returns.

5. The fund's 30-Day SEC Yield is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

What Are The Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. These and other risks are discussed in the fund's prospectus.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

a. Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 12/31/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns.

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