

# Western Asset Short Duration High Income Fund

Class A: SHIAX Class I: SHIYX

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** The fixed income market experienced periods of volatility, but posted a modest gain during the second quarter. Investor sentiment was impacted by several factors, including persistent trade uncertainty, signs of global economic strains, questions over future Federal Reserve's ("Fed") monetary policy, mounting fiscal concerns, and hostilities between Israel and Iraq. The high-yield market outperformed the overall U.S. bond market during the second quarter, as the Bloomberg U.S. Corporate High Yield 2% Issuer Cap Index returned 3.53%, while the Bloomberg U.S. Aggregate Index returned 1.21%.
- **Contributors:** An underweight to energy and an overweight to transportation were contributors to performance over the quarter.
- **Detractors:** Opportunistic allocations to structured products and investment-grade-rated securities detracted from performance.
- **Outlook:** We believe an actively managed high-yield strategy yielding near 8% remains attractive compared to equities and other higher-volatility alternatives given the current macro backdrop.

## Performance Review

- Opportunistic allocations to structured products and investment-grade-rated securities detracted from performance.
- Industry allocation was a modest headwind for returns, as the negative impact of an overweight to banking was partially offset by the contributions of an underweight to energy and an overweight to transportation.
- Issue selection was a detractor from performance, driven by issuer tilts within transportation, technology and consumer cyclicals.
- Quality positioning was largely neutral for performance

## Outlook

- We believe an actively managed high-yield strategy yielding near 8% remains attractive compared to equities and other higher-volatility alternatives given the current macro backdrop. Today's spreads offer a material premium 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 ratios for high-yield issuers have shown resilience, with healthy balance sheets and conservative management team behavior evident as growth slows.
- From a technical perspective, we expect continued demand to persist from both institutional and retail investors, as they search for steady income generation in their portfolios. The recent bout of heightened volatility induced by an aggressive approach to trade policy by the Trump administration has only made the risk/reward case stronger for an actively managed allocation to below investment-grade credit.
- We are still seeing opportunities in "rising star" candidates and will selectively utilize the primary market at attractive concessions. In terms of industry positioning, we maintain a deep cyclicals bias given the yield pickup versus non-cyclicals and the strong fundamentals we are seeing there, along with key overweights to cruise lines, airlines, and exploration and production (E&P) within the energy sector.

## Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	1.92 Years
30-Day SEC Yield (Class A)—With Waiver	6.42%
30-Day SEC Yield (Class A)—Without Waiver	6.42%

## Sector Allocation (% of Total)

Sector	Fund
Consumer Cyclical	23.90
Finance	11.64
Communications	11.64
Capital Goods	9.35
Energy	8.99
Consumer Non-Cyclical	8.17
Structured	7.32
Technology	6.56
Other	11.25
Cash & Cash Equivalents	1.19

## Credit Quality Allocation (% of Total)

	Fund
A	0.43
BBB	8.34
BB	29.47
B	40.41
CCC	12.42
CC	0.52
C	0.03
D	0.76
NR	6.44
Cash & Cash Equivalents	1.19

Average annual total returns and fund expenses (%) - as of June 30, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	
Class A	52469F630	SHIAX	2.67	3.65	8.60	8.82	6.39	4.10	5.77	0.36	1.34	6.15	7.97	5.91	3.86	5.69	0.97	0.97	2.25	—	11/6/1992
Class I	52469F598	SHIYX	2.73	3.77	9.07	9.16	6.66	4.38	5.45	2.73	3.77	9.07	9.16	6.66	4.38	5.45	0.72	0.72	—	—	2/5/1996
Benchmark	—	—	3.20	4.08	10.00	9.73	6.93	5.25	—	3.20	4.08	10.00	9.73	6.93	5.25	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US High Yield 1-5 Year Cash Pay 2% Constrained Index

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

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.

Glossary

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 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.

**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.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

**Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **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.

**Credit Quality** is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, if two or more of the agencies have assigned differing ratings to a security, the lowest rating is used. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the fund's portfolio does not apply to the stability or safety of the fund. These ratings are updated monthly and may change over time. **Please note, the Fund itself has not been rated by an independent rating agency.**

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