

Western Asset Short Duration High Income Fund

Class A: SHIAX Class I: SHIYX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** Economic uncertainties triggered a flight to quality during the first quarter of 2025, driving U.S. Treasury yields lower and their prices higher. The economy continued to expand, while inflation remained higher than the Federal Reserve's ("Fed") 2% target. Meanwhile, President Trump's plans for new reciprocal tariffs on U.S. imports led to concerns of rising inflation. All told, the overall U.S. bond market, as measured by the Bloomberg U.S. Aggregate Index, returned 2.78% during the first quarter. In contrast, the municipal ("muni") market modestly declined over the quarter.
- **Contributors:** Issue selection within technology and structured product positioning contributed to performance.
- **Detractors:** An underweight to securities rate BB detracted from performance.
- **Outlook:** Yields and sub-par dollar prices remain attractive while spreads have widened from near record tights to levels that are more attractive.

Performance Review

- Issue selection within technology and consumer non-cyclicals contributed to performance.
- Structured products positioning was rewarded.
- An overweight to investment-grade securities was additive.
- Underweights to the basic industry and capital goods sectors were positive for returns.
- An underweight to securities rated BBs detracted from performance.
- An underweight to communications and an overweight to transportation were headwind for results.

Outlook

- So far in 2025, corporate fundamentals have been resilient and technicals in the market have been supportive. We expect these trends to persist, with potential bouts of volatility surrounding the implementation of President Trump's policies. Due to the uncertainty surrounding tariffs, there has been general weakness across risk assets; which is more pronounced in the lower quality portions of the market as spreads have widened following concerns around slowing growth.
- Following a series of rate cuts in 2024, the Fed has taken a more hawkish stance and could continue to hold rates moving forward. We remain focused on industry and company fundamentals, the health of balance sheets, generation and use of free cash flow, the resiliency of credits to slower economic growth, and are cautious on deeply distressed names. The U.S. high-yield default rate (including distressed exchanges) fell in March, and remains well below long-term averages, ending the month at 1.20%. Technicals remain solid, with strong demand and supply that remains low by historical standards net of refinancing. Yields (now above their long-term median) and sub-par dollar prices remain attractive while spreads have widened from near record tights to levels that are more attractive. Risks to our outlook include higher than expected inflation, policy missteps, a more severe slowdown or recession, and/or heightened geopolitical tension.

Morningstar Rating™

Overall Rating as of March 31, 2025



(4-Star) Class A



(4-Star) Class I

As of 03/31/2025 the fund's Class I and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 586, 537 and 423 High Yield Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	2.23 Years
30-Day SEC Yield (Class A)—With Waiver	6.77%
30-Day SEC Yield (Class A)—Without Waiver	6.77%

Sector Allocation (% of Total)

Sector	Fund
Consumer Cyclical	24.81
Communications	11.84
Finance	11.69
Capital Goods	9.58
Consumer Non-Cyclical	8.93
Energy	8.50
Technology	6.62
Structured	6.59
Other	11.10
Cash & Cash Equivalents	0.35

Credit Quality Allocation (% of Total)

Credit Quality Allocation	Fund
AA	0.10
A	0.42
BBB	6.05
BB	29.45
B	44.21
CCC	11.62
CC	1.61
C	0.95
NR	5.24
Cash & Cash Equivalents	0.35

Average annual total returns and fund expenses (%)

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	0.95	0.95	7.51	4.85	8.02	3.94	5.73	-1.30	-1.30	5.09	4.05	7.54	3.70	5.65	0.97	0.97	2.25	—	11/6/1992
Class I	52469F598	SHIYX	1.02	1.02	7.75	5.12	8.29	4.22	5.40	1.02	1.02	7.75	5.12	8.29	4.22	5.40	0.72	0.72	—	—	2/5/1996
Benchmark	—	—	0.86	0.86	7.92	5.93	8.02	4.99	—	0.86	0.86	7.92	5.93	8.02	4.99	—	—	—	—	—	—

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.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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. 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.**

Morningstar Rating™: Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Class A shares received a Morningstar Rating of 4, 4 and 3 and fund's Class I shares received a Morningstar Rating of 4, 4 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Class I shares only. Other share classes may have different Morningstar ratings.

© Franklin Distributors, LLC. Member FINRA/SIPC.

Western Asset Management Company, LLC, and Franklin Distributors, LLC, are Franklin Templeton companies.

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.