



# **Western Asset Short Duration High Income Fund**

Class A: SHIAX Class I: SHIYX

Commentary | as of September 30, 2025

## **Key Takeaways**

- Markets: During the third quarter, volatility in both equity and Treasury markets remained relatively subdued. Risk assets
  performed well, with the S&P 500 Index reaching new highs and credit spreads tightening. US job growth weakened in
  August, with nonfarm payrolls rising by 22,000 jobs—lower than July's upwardly revised figure of 79,000 (from 73,000).
  The Federal Open Market Committee lowered its policy rate by 25 bps at its September meeting, setting the target
  range for the federal funds rate at 4.00% to 4.25%.
- Contributors: An opportunistic allocation to emerging markets (EM) contributed to performance over the quarter.
- **Detractors**: An underweight to communications detracted from performance.
- Outlook: U.S. financial conditions are largely supportive, which, alongside fiscal loosening and solid household balance sheets, points toward a positive foundation for growth. Headwinds remain, including doubts over the state of the U.S. labor market, core inflation lingering close to 3% and the potential lagged impact of tariffs. This backdrop should keep the Federal Reserve on a rate-cutting path, albeit with a cautious view of the inflation outlook.

#### **Performance Review**

- Quality positioning added slightly to relative performance, driven mainly by the underweight to BB rated securities.
- An opportunistic allocation to EM contributed to relative performance.
- Industry allocation added slightly to relative performance, as the negative impact of an underweight to communications
  partially offset the positive impact of an underweight to basic industry and an overweight to banking.
- Issue selection was a contributor to relative performance, led by positive issuer tilts within the communications, consumer cyclical and technology sectors.

### **Outlook**

- Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as inflation, central bank policy, geopolitics and fiscal sustainability.
- Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further. European growth is expected to benefit
  from German and E.U. fiscal support with the European Central Bank judging the eurozone economy to be "in a good place."
- We continue to focus on disciplined, fundamental, relative value investing, seeking pockets of opportunity in fixed income
  while remaining mindful of technical and macroeconomic risks.

## Morningstar Rating™

Overall Rating as of September 30, 2025



(3-Star) Class A



(4-Star) Class I

and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 586, 547 and 439 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.

As of 09/30/2025 the fund's Class I shares received a 4 star

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class A)—With Waiver	6.09%
30-Day SEC Yield (Class A)—Without Waiver	6.09%

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

			Without Sales Charge						With Maximum Sales Charge							Expenses		Sales Charges		Inception	
Class	CUSIP	Ticker	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	Date
Class A	52469F630	SHIAX	2.57	6.31	7.35	9.58	6.05	5.06	5.80	0.28	3.94	4.98	8.72	5.58	4.82	5.73	0.97	0.97	2.25	-	11/6/1992
Class I	52469F598	SHIYX	2.63	6.50	7.60	9.84	6.32	5.35	5.49	2.63	6.50	7.60	9.84	6.32	5.35	5.49	0.72	0.72	_	_	2/5/1996
Benchmark	_	-	2.37	6.55	7.29	10.42	6.56	6.03	_	2.37	6.55	7.29	10.42	6.56	6.03	_	_	_	_	-	_

## 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.

#### Glossarv

The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. Also known as the "fed funds rate".

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved. The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

#### **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.

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.

Morningstar Rating™: Source: Morningstar®, 09/30/2025. 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 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 I shares received a Morningstar Rating of 3, 5 and 3 and fund's Class A shares received a Morningstar Rating of 2, 4 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class I and Class A shares only. Other share classes may have different Morningstar ratings.

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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.

