FRANKLIN TEMPLETON | WESTERN ASSET

Western Asset Short Duration High Income Fund

Class A: SHIAX Class I: SHIYX **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** During the third quarter, global markets remained heavily influenced by developments in the Middle East, as repeated military escalations and disruptions to global energy supplies drove renewed inflation concerns and a significant repricing of the interest-rate outlook. As a result, risk assets generally underperformed, aside from AI-related winners.
- **Contributors:** Quality allocation and issue selection, as well as opportunistic allocations to structured products and investment-grade-rated securities contributed to performance over the quarter.
- **Detractors:** Industry allocations and an opportunistic allocation to emerging market (EM) debt detracted from performance over the quarter.
- **Outlook:** Global fixed income markets are navigating heightened uncertainty driven by geopolitical tensions in the Middle East, rapid technological change and increased scrutiny of private credit markets. Energy-related supply disruptions have lifted near-term inflation and triggered a sharp reset in market expectations for central bank policy, with investors pricing rate hikes rather than the cuts anticipated earlier in the year.

Performance Review

- Quality allocation added to relative performance, driven mainly by the overweight to single-B rated securities.
- Opportunistic allocation to structured products and, to a lesser extent, investment-grade-rated securities, contributed to relative performance.
- Industry allocation detracted slightly from relative performance, driven by underweights to basic industry and electric utilities.
- Issue selection was a contributor to relative performance, led by issuer tilts within the communications, technology and transportation sectors.
- An opportunistic allocation to EM debt detracted slightly from relative performance.

Outlook

- Energy-related supply disruptions have lifted near-term inflation and triggered a sharp reset in market expectations for central bank policy, with investors pricing rate hikes rather than the cuts anticipated earlier in the year.
- While near-term inflation pressures are evident, longer-term inflation expectations remain well anchored, and we believe the magnitude of the recent rate repricing may be somewhat overdone.
- Global growth is expected to moderate, with the US remaining relatively more resilient than other regions due to energy independence, fiscal support and strong underlying fundamentals.

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★ **(4-Star)** Class A

★★★★ **(4-Star)** Class I

As of 09/30/2026 the fund's Class I and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 574, 540 and 444 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class A)—With Waiver	6.82%
30-Day SEC Yield (Class A)—Without Waiver	6.82%

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			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	-0.76	1.45	2.65	7.04	4.23	4.88	5.71	-3.00	-0.81	0.38	6.21	3.76	4.65	5.64	0.97	0.97	2.25	—	11/6/1992
Class I	52469F598	SHIYX	-0.70	1.65	2.91	7.29	4.46	5.16	5.41	-0.70	1.65	2.91	7.29	4.46	5.16	5.41	0.74	0.74	—	—	2/5/1996
Benchmark	—	—	-1.27	0.73	1.92	7.61	4.63	5.16	—	-1.27	0.73	1.92	7.61	4.63	5.16	—	—	—	—	—	—

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 12/31/2027 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.

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®, 09/30/2026. 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 3, 4 and 4 and fund's Class I shares received a Morningstar Rating of 3, 5 and 4 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. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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.

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