Western Asset Inflation-Linked Income Fund

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** During the second quarter, increased volatility was marked by geopolitical shocks and macro crosscurrents. The market saw bouts of risk-off sentiment, most notably following the "Liberation Day" tariff announcement on April 2 and the brief U.S., Iran and Israel conflict. Markets subsequently rebounded as most tariffs were delayed, and Iran and Israel agreed to a tentative ceasefire. The front end of the U.S. Treasury (UST) yield curve declined, while long-end yields rose on concerns of rising deficits and potential inflation reacceleration. Throughout the quarter, credit spreads tightened and emerging market (EM) local yields fell. The S&P 500 Index returned 10.57%, and the U.S. dollar weakened versus most EM and developed market (DM) currencies.
- **Contributors:** Interest rate positioning and sector exposures contributed to performance.
- **Detractors:** The Fund's Treasury Inflation-Protected securities (TIPS) exposure detracted from performance.
- **Outlook:** Global growth is expected to slow given heightened unpredictability, but should remain positive. Overall monetary policy remains restrictive and we believe that central banks will continue to cut rates. The Fed remains well positioned to provide support if the U.S. economy falters. While fundamentals remain positive, spreads are at the tight end of historical ranges in some sectors and warrant caution.

Performance Review

- Interest rate positioning had a positive impact on performance as the yield curve steepened.
- Emerging market exposures were additive to returns as U.S. dollar-denominated spreads tightened.
- In addition, corporate credit exposures (both investment-grade and high- yield) were additive for results, benefiting from positive issue selection and tightening spreads.
- Structured products exposure in aggregate had a positive impact as spreads generally tightened.
- In terms of detractors, Treasury Inflation-Protected Securities (TIPS) exposure was a headwind for returns.

Outlook

- U.S. government policy has caused severe volatility in fixed-income markets over the last several months. Global growth is expected to slow given heightened unpredictability, but should remain positive. U.S. growth is downshifting due to a myriad of factors, including tariff uncertainty, waning benefits from immigration, and reduced government spending in recent years. A significant fiscal boost from European defense and German infrastructure spending should support eurozone growth and provide relief from tariff-related uncertainty. Deflationary pressures in China persist and confidence is weak amid property market concerns, but sentiment is improving with fiscal stimulus and policy easing.
- Overall monetary policy remains restrictive and we believe that central banks will continue to cut rates. The Fed remains well positioned to provide support if the U.S. economy falters. Public debt levels continue to rise and yield curves may steepen further given concerns over fiscal policies.
- While fundamentals remain positive, spreads are at the tight end of historical ranges in some sectors and warrant caution. We will continue to look for further periods of volatility to add to spread products.

Fund Characteristics	Fund
Effective Duration	7.08 Years

Sector Allocation (% of Total)

Sector	Fund
Inflation-Linked	80.55
Investment-Grade Credit	6.58
Emerging Market	4.36
Non-Agency MBS	3.39
Commercial Mortgage Backed Securities	2.63
High-Yield Credit	1.00
Developed Non-USD	0.35
Agency	0.13
Treasury	0.05
Agency Mortgage-Backed Securities	0.05
Cash & Cash Equivalents	0.92

Credit Quality Allocation (% of Total)

Rating	Fund
AAA	1.99
AA	83.00
A	3.94
BBB	5.81
BB	1.72
B	0.07
CCC	0.99
NR	1.57
Cash & Cash Equivalents	0.92

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

Product	Ticker	Listed Exchange	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Market Price Return	WIA	NYSE - XNYS	2.50	8.96	8.96	12.84	4.84	3.22	3.87	3.02	9/26/2003
NAV Returns	—	—	0.96	6.46	6.46	6.86	2.04	1.59	2.57	3.12	9/26/2003
Benchmark 1	—	—	1.04	5.01	5.01	6.87	3.41	2.91	2.96	3.49	—
Benchmark 2	—	—	0.38	4.56	4.56	5.71	2.25	1.43	2.66	3.74	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=Bloomberg U.S. Govt Inflation-Linked 1-10Yrs

Benchmark 2=Bloomberg U.S. Govt Inflation-Linked All Maturities

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. When applicable, performance would have been lower if fees had not been waived in various periods. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expense or sales charges. Returns for periods of less than one year are not annualized. Please visit franklintempleton.com for the most recent month-end performance.*

Gross expenses are the fund's total annual operating expenses as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect voluntary fee waivers, expense caps and/or reimbursements. Voluntary waivers may be modified or discontinued at any time without notice.

The difference between total assets and net assets, if any, is due primarily to the fund's use of borrowings and other liabilities; netassets do not include borrowings. The fund may employ leverage in the form of loans, preferred stock, reverse repurchase agreementsand/or other instruments. When the fund engages in transactions that have a leveraging effect on the fund's portfolio, the value of thefund will be more volatile and all other risks will tend to be compounded.

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. The fund is subject to the additional risks associated with **inflation-linked securities**, including liquidity risk, prepayment risk, extension risk and deflation risk. **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. Currency management** strategies could result in losses to the fund if currencies do not perform as expected. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Commodity-related investments** are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **Leverage** increases the volatility of investment returns and subjects investments to magnified losses and a decline in value.

Glossary

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.

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The **Bloomberg U.S. Government Inflation-Linked 1-10 Year Index** measures the performance of the intermediate U.S. TIPS market. Source: Bloomberg Indices. The **Bloomberg U.S. Government Inflation-Linked All Maturities Index** measures the performance of the U.S. TIPS market. The Index includes TIPS with one or more years remaining maturity with total outstanding issue size of $500 million or more. 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.

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 highest 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.**

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.

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