

Western Asset Total Return Unconstrained Fund

Class I: WAARX Class A: WAUAX
Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Fixed-income market volatility persisted in the fourth quarter of 2025 as investors and policymakers navigated mixed economic signals. The longest US government shutdown, which restricted data availability, ended in November after 43 days. The US Treasury (UST) yield curve steepened, with short and intermediate UST yields finishing the quarter lower, while long-term yields increased. Equities performed well, with the S&P 500 Index reaching new highs, while credit spreads were mixed.
- **Contributors:** The portfolio's yield-curve and spread product positioning contributed to performance.
- **Detractors:** The portfolio's overall long duration positioning was a headwind for returns.
- **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

- Agency mortgage-backed securities (MBS) positioning had a positive impact on performance as spreads tightened.
- Structured product positioning contributed to performance, driven by exposure to collateralized loan obligations (CLOs), as spreads generally tightened.
- The portfolio's yield-curve positioning had a positive impact on performance as the UST yield curve twisted steeper.
- The portfolio's emerging markets positioning added to performance, driven by USD-denominated sovereigns, as spreads tightened.
- The portfolio's high-yield positioning had a positive impact on performance as spreads tightened.
- The portfolio's investment-grade corporate exposure benefited performance even as spreads widened slightly due to positive issue and sector selection.
- Duration positioning had a slight negative impact on performance as intermediate and longer-term UST yields rose.

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.
- Having cut rates at three successive meetings since September, the Federal Reserve may now moderate its pace of easing and await further signals from the post-shutdown data releases. Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further.
- 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.

Fund Characteristics

Fund	
Distribution Frequency	Daily
30-Day SEC Yield (Class I)—With Waiver	4.67%
30-Day SEC Yield (Class I)—Without Waiver	4.07%

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge						With Maximum Sales Charge						Expenses		Sales Charges		Inception		
			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 I	957663719	WAARX	0.91	7.13	7.13	5.78	0.00	2.37	3.41	0.91	7.13	7.13	5.78	0.00	2.37	3.41	0.92	0.77	—	—	7/6/2006
Class A	957663230	WAUAX	0.84	6.85	6.85	5.54	-0.28	2.04	2.03	-2.94	2.82	2.82	4.19	-1.14	1.60	1.70	1.18	1.09	3.75	—	4/30/2012
Benchmark 1	—	—	0.97	4.18	4.18	4.81	3.17	2.18	—	0.97	4.18	4.18	4.81	3.17	2.18	—	—	—	—	—	—
Benchmark 2	—	—	1.10	7.30	7.30	4.66	-0.36	2.01	—	1.10	7.30	7.30	4.66	-0.36	2.01	—	—	—	—	—	—
Benchmark 3	—	—	1.05	4.42	4.42	5.00	3.26	2.38	—	1.05	4.42	4.42	5.00	3.26	2.38	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=ICE BofA 3-Month U.S. Treasury Bill

Benchmark 2=Bloomberg U.S. Aggregate Index

Benchmark 3=ICE BofA US Dollar 3-Month Deposit Offered Rate Constant Maturity

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. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 12/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Maximum sales charges have been updated as of August 15, 2022, please refer the Fund's prospectus for more information.

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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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. **Leverage** increases the volatility of investment returns and subjects investments to magnified losses and a decline in value. These and other risks are discussed in the fund's prospectus.

Glossary

Agency mortgage backed security (MBS) are mortgage backed securities issued by government-sponsored enterprises such as Ginnie Mae, Fannie Mae or Freddie Mac.

A collateralized loan obligation (CLO) is a single security backed by a pool of debt.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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.

The **ICE BofA U.S. 3-Month Treasury Bill Index** is an unmanaged index that comprises a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month. 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. The **ICE BofA US Dollar 3-Month Deposit Offered Rate Constant Maturity Index** tracks the performance of a synthetic asset paying Libor to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day fixing rate) and rolled into a new instrument.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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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.

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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.