Western Asset Total Return Unconstrained Fund

Class I: WAARX Class A: WAUAX | **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:** Duration and yield curve positioning, along with spread sector exposures, contributed to performance.
- **Detractors:** Hedging costs were a modest detractor from performance.
- **Outlook:** We expect central banks will continue to cut rates modestly in 2025. Spread sector fundamentals remain supportive, but valuations reflect those fundamentals and credit spreads persist at below historical averages. We continue to find opportunities within spread sectors and related securities, while remaining tactical.

Performance Review

- Duration exposure was the largest contributor to performance as rates declined over the quarter.
- Yield curve positioning was additive for results.
- The Fund's structured product exposure, including non-agency residential mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities, contributed to returns.
- An allocation to non-U.S. dollar currencies positively impacted performance as the U.S. dollar weakened over the period.
- An allocation to emerging markets was rewarded.
- Hedging costs were a modest detractor from performance.

Outlook

- The disinflationary trend may be interrupted as tariffs and retaliatory actions are implemented, but we expect inflation to move lower again over the longer term. Monetary policy remains restrictive. We expect central banks will continue to cut rates modestly in 2025. 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 given concerns over fiscal policies globally.
- We see pockets of opportunity in developed market rates in Europe, the UK and Australia. While the overall uncertainty in the market environment necessitates caution, we do see some longer-term value opportunities in emerging market local currency debt.
- Spread sector fundamentals remain supportive, but valuations reflect those fundamentals and credit spreads persist at below historical averages. We continue to find opportunities within spread sectors and related securities, while remaining tactical.
- Developed market duration provides useful diversification.

Fund Characteristics	Fund
Distribution Frequency	Daily
Effective Duration	3.71 Years
30-Day SEC Yield (Class I)—With Waiver	4.78%
30-Day SEC Yield (Class I)—Without Waiver	4.71%

Sector Allocation (% of Total)

Sector	Fund
Agency Mortgage-Backed Securities	36.61
Treasury	9.35
Investment-Grade Credit	8.62
Commercial Mortgage Backed Securities	7.91
EM Local Currency	7.30
Collateralized Loan Obligation	7.17
Non-Agency MBS	6.09
High-Yield Credit	4.66
Asset-Backed Securities	3.33
Other	5.03
Cash & Cash Equivalents	3.93

Credit Quality Allocation (% of Total)

Rating	Fund
AAA	50.98
AA	1.07
A	4.45
BBB	17.84
BB	9.66
B	1.76
CCC	2.48
CC	0.07
C	0.26
NR	7.50
Cash & Cash Equivalents	3.93

Average annual total returns and fund expenses (%)

			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 I	957663719	WAARX	2.89	2.89	6.03	2.03	2.07	1.90	3.33	2.89	2.89	6.03	2.03	2.07	1.90	3.33	0.77	0.76	—	—	7/6/2006
Class A	957663230	WAUAX	2.83	2.83	5.75	1.76	1.77	1.58	1.85	-1.05	-1.05	1.81	0.31	0.89	1.14	1.50	1.11	1.08	3.75	—	4/30/2012
Benchmark 1	—	—	1.02	1.02	4.97	4.23	2.56	1.87	—	1.02	1.02	4.97	4.23	2.56	1.87	—	—	—	—	—	—
Benchmark 2	—	—	2.78	2.78	4.88	0.52	-0.40	1.46	—	2.78	2.78	4.88	0.52	-0.40	1.46	—	—	—	—	—	—
Benchmark 3	—	—	1.07	1.07	5.19	4.31	2.70	2.06	—	1.07	1.07	5.19	4.31	2.70	2.06	—	—	—	—	—	—

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 12/31/2025 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

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

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 **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. The **ICE BofA 3-Month U.S. 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. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use. 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. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

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 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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