

Western Asset Diversified Income Fund

WDI

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** The first quarter of 2026 was characterized by elevated geopolitical risk and accelerating AI-driven disruption across the software sector and its incumbent business models. The period was shaped by a series of international developments, including the capture and indictment of Nicolás Maduro, escalating diplomatic tensions between the US and European NATO allies over Greenland, and a US-Israeli military operation against Iran.
- **Contributors:** The Fund's exposure to high-yield corporates and bank loans was in aggregate the most significant contributor to performance.
- **Detractors:** The Fund's duration and yield-curve positioning was the most significant detractor from performance.
- **Outlook:** Geopolitical tensions remain a defining feature of the outlook, with the Middle East conflict introducing ongoing uncertainty and contributing to oil price volatility as supply routes face occasional disruption. Even with these pressures, the global economic backdrop is gradually improving as fiscal support, easier financial conditions and moderating inflation help strengthen the 2026 outlook.

Fund Characteristics

Distribution Frequency

Fund

Monthly

Performance Review

- The Fund's exposure to high-yield corporates and bank loans was in aggregate the most significant contributor during the quarter given their high income generation.
- The Fund's securitized credit exposure was in aggregate modestly beneficial as the negative impact of collateralized loan obligations (CLOs) partially offset the positive contribution of commercial mortgage-backed securities (CMBS) and non-agency residential MBS.
- The Fund's emerging markets exposure was in aggregate a slight contributor as the negative impact of USD-denominated sovereigns partially offset the positive impact of USD- and local-currency-denominated corporates.
- The Fund's duration and yield-curve positioning was the most significant detractor as US Treasury yields rose and the curve bear-flattened, with short- to intermediate-term yields rising more than long-term yields.

Outlook

- In the US, policy tailwinds and deregulation continue to support activity despite signs of softer labor conditions.
- Europe and the United Kingdom face trade and labor-market challenges but easing inflation and selective fiscal measures may offer stabilization.
- China's recovery remains policy-driven amid structural constraints, while Japan's persistent inflation supports further policy normalization.
- Credit markets remain supported by strong fundamentals and healthy demand, with issuance elevated by AI-related capex, M&A and refinancing needs.

Average annual total returns (%) - as of March 31, 2026

| Product | Ticker | Listed Exchange | 3-Mo* | 6-Mo* | YTD* | 1-Yr | 3-Yr | 5-Yr | 10-Yr | Inception | Inception Date |
|---------------------|--------|-----------------|-------|-------|-------|------|-------|------|-------|-----------|----------------|
| Market Price Return | WDI | NYSE - XNYS | -0.56 | -2.65 | -0.56 | 5.24 | 13.25 | — | — | 2.59 | 6/25/2021 |
| NAV Returns | — | — | -1.14 | -0.24 | -1.14 | 7.22 | 9.74 | — | — | 2.98 | 6/25/2021 |
| Benchmark | — | — | -0.50 | 0.81 | -0.50 | 7.01 | 8.60 | — | — | 3.90 | — |

*Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index

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.

The total annual operating expenses are as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

Distribution Rate is calculated by annualizing the most recent distribution amount paid, divided by the closing market price or NAV as of the date indicated. The Distribution Rate calculation includes income and excludes special distributions. The Distribution Rate is subject to change and is not guaranteed nor a quotation of fund performance.

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 agreements and/or other instruments. When the fund engages in transactions that have a leveraging effect on the fund's portfolio, the value of the fund 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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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. **Diversification** does not assure against market loss.

Glossary

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

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.

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

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. Corporate High Yield - 2% Issuer Cap Index** measures the performance of U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. The Index limits the maximum exposure to any one issuer to 2%.

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

Source: Bloomberg Indices.

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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.