



Monthly

Western Asset Diversified Income Fund

Commentary | as of September 30, 2025

Key Takeaways

- Markets: During the third quarter, volatility in both equity and Treasury markets remained relatively subdued. Risk
 assets performed well, with the S&P 500 Index reaching new highs and credit spreads tightening. US job growth
 weakened in August, with nonfarm payrolls rising by 22,000 jobs—lower than July's upwardly revised figure of 79,000
 (from 73,000). The Federal Open Market Committee lowered its policy rate by 25 bps at its September meeting, setting
 the target range for the federal funds rate at 4.00% to 4.25%.
- Contributors: The Fund's exposure to high-yield bonds, bank loans and collateralized loan obligations was the most significant contributor.
- Detractors: There were no notable detractors during the quarter
- 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

- The Fund's exposure to high-yield bonds, bank loans and collateralized loan obligations was the most significant contributor as spreads tightened during the quarter.
- Emerging markets exposure, particularly to U.S. dollar-denominated corporates and sovereigns, contributed positively to the Fund's performance.
- The Fund's securitized credit exposure, mainly to non-agency residential and commercial mortgage-backed securities, was also a contributor.
- The Fund's duration positioning was a modest contributor as U.S. Treasury yields fell and the curve bull-steepened.

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.
- Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further. European growth is expected to benefit
 from German and E.U. fiscal support with the European Central Bank judging the eurozone economy to be "in a good place."
- 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

Distribution Frequency

Average annual total returns (%) - as of September 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	WDI	NYSE - XNYS	2.11	8.10	12.96	5.76	18.61	_	_	3.55	6/25/2021
NAV Returns	_	_	4.18	7.48	8.70	7.83	12.28	_	_	3.40	6/25/2021
Benchmark	_	_	2.54	6.15	7.22	7.41	11.09	_	_	4.17	_

^{*}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. 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. 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.

The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. Also known as the "fed funds rate".

The **\$&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © **\$&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. 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%. Source: Bloomberg Indices.

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

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