



Performance Review

- With interest rates steadily declining, the fixed income market generated strong results during the third quarter. The economy remained largely resilient and inflation continued to moderate, moving closer to the Federal Reserve's ("Fed") 2% target. Against this backdrop, the U.S. central bank lowered interest rates for the first time since March 2020. Both short- and long-term Treasury yields declined and the overall U.S. taxable bond market, as measured by the Bloomberg U.S. Aggregate Index, returned 5.20% during the quarter.
- For the quarter, the fund returned 4.62% at NAV, while the benchmark, the Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index, returned 5.28%.

QUARTERLY KEY PERFORMANCE DRIVERS

- The Fund's exposure to high-yield (HY) bonds, bank loans and collateralized loan obligations contributed to performance. Our view is that HY credit spreads reflect continued balance sheet strength, the prudent behavior of management teams, and supportive demand for higher yielding securities relative to supply. We continue to see value in service-related sectors that are still recovering from the pandemic-era recession (i.e., reopening trades including cruise lines and lodging). We are also constructive on the energy sectors, specifically exploration and production issuers, as well as potential "rising stars." Sectors that we are more cautious about include consumer products, retailers and home construction.
- Emerging markets (EM) debt was a mild contributor to performance. Within EM, we are expecting a choppy fourth quarter as asset prices bounce between U.S. election headlines and a more benign Fed/inflation scenario. With the Fed having finally started the easing cycle, we expect EM monetary policymakers to continue or accelerate their easing cycles as well. EM investment-grade (IG) spreads are currently trading near historical tightness to U.S. IG. However, at Western Asset we are increasingly thinking of EM "beyond the indices" where Latin America-focused spreads are ~2x US IG spreads as demand is less robust than Asia. Within frontier markets, although asset prices have recovered materially, we still see the benefit of attractive carry and the scope for spread compression.
- Mortgage-backed securities (MBS) were a modest detractor to returns during the quarter. In non-agency residential MBS, the continued relief in mortgage rates in conjunction with easing inflation is expected to alleviate pressure on U.S. housing affordability. Home prices on a national level are expected to remain constrained as they move towards long-run averages of 3%-5% annually. We are opportunistic on credit risk transfer (CRT) securities as well, as non-qualified mortgage deals. In non-agency commercial mortgage-backed securities (MBS), the market has reopened with tight underwriting standards and year-to-date issuance volume on pace with the 2013-2020 average. Valuations have bottomed and capital is being deployed to take advantage of the reset basis in both debt and equity markets. High quality underwriting with low leverage, strong cash flow and robust structural protections are prevalent across the new issue market providing support for new origination credit risk with high current yields, while discount priced seasoned bonds offer intriguing total return opportunities.
- The Fund's duration stance was a contributor to returns. In general, all segments of the portfolio benefited from the U.S. Treasury rally, expectations of additional Fed rate cuts well into 2025, and the risk-on environment that took hold following the Fed's move.

Outlook & Strategy

- Our base case calls for further weakening in global growth and further declines in inflation with a greater emphasis on services disinflation. Goods price inflation is running modestly below pre-pandemic levels, but with ongoing deflationary pressures from Asia, it's hard to see a meaningful persistent uptick moving forward. Services inflation remains elevated, but wage pressures are abating as job markets soften and service sector demand is slowing. Headline inflation is close to target in most advanced economies, which has allowed central banks to reduce policy rates as their inflation concerns lessen while growth concerns rise.
- Growth is slowing in the U.S. and remains moribund in the rest of the world. At the same time, lower policy rates and the recent Chinese stimulus package should lessen recessionary fears. We remain overweight to interest rate duration, but less so as rates have fallen and markets have moved closer to our base case. Spread sectors have performed well and we expect this to persist if the downward growth trajectory remains gentle and services disinflation continues. However, valuations now have less yield advantage to offset potential macro and political risks going forward.

Product Details

Inception Date	06/24/2021
Benchmark	Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index
Ticker	WDI
CUSIP	95790K109

Product Description

Diverse opportunity set: Anticipates investing in a wide range of fixed income securities, seeking to go beyond traditional bond benchmarks to access a broad range of opportunities for income and capital appreciation.

Income-focused: Potential access to fixed income sectors and private debt not typically available through traditional mutual funds.

Flexible and dynamic: Anticipates rotating sectors and securities in response to market conditions, focusing on what we believe are undervalued securities with attractive fundamentals.

Deep experience: Will draw on Western Asset's 50 years as an active fixed income manager.

Limited Term: The Fund intends to dissolve as of the first business day following the twelfth anniversary of the effective date of the Fund's initial registration statement (the "Dissolution Date"), provided that the Board may extend the Dissolution Date for up to two years. Within 6-18 months of the liquidation date the Board may approve a tender offer for 100% of the shares outstanding. If, upon expiration of the tender offer, the Fund has in excess of \$200 million aggregate net assets the Board may remove the Fund's termination date.

Performance Data

Average Annual Total Returns¹ (%)

	1 Mth	3 Mths	1 Year	3 Year	Since Inception (06/25/2021)
Western Asset Diversified Income Fund (NAV Returns) ^a	1.72	4.62	17.99	1.97	2.08
Western Asset Diversified Income Fund (Market Price Return) ^a	3.93	12.00	33.51	4.11	2.88
Bloomberg U.S. Corporate High Yield - 2% Issuer Cap Index	1.62	5.28	15.73	3.09	3.20

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. The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the fund's portfolio. Index data is provided for comparison purposes only. The fund is not managed against an index. 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. **NAV** is total assets less total liabilities divided by the number of shares outstanding. **Market Price**, determined by supply and demand, is the price an investor purchases or sells the fund. The Market Price may differ from a fund's NAV. **Premium / Discount** reflects the difference between the NAV and the Market Price of the fund, and represents the amount that the fund is trading above or below its NAV, expressed as a percentage of the NAV.

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.

Investment Team

Western Asset is one of the world's leading active fixed-income managers, delivering long-term fundamental value investment solutions to clients for over half a century. Founded in 1971, Western Asset offers clients deep expertise across the range of global fixed-income sectors from nine offices located in key financial markets.

1. Periods shorter than one year are shown as cumulative total returns.

What Are The Risks?

All investments involve risks, including possible loss of principal. The fund is newly organized, with a limited history of operations. **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.

Important Legal 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.

Distributions are not guaranteed and are subject to change. The Closed-End Funds are not sold or distributed by Franklin Distributors, LLC, or any affiliate of Franklin Resources, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are first issued, are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. Investment return, market price and net asset value will fluctuate with changes in market conditions. The Funds are subject to investment risks, including the possible loss of principal invested.

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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Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

a. 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.

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