

Western Asset Income Fund  
Form N-CSRS  
August 22, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**  
**Investment Company Act file number 811-02351**

**Western Asset Income Fund**  
**(Exact name of registrant as specified in charter)**

**620 Eighth Avenue, 49<sup>th</sup> Floor, New York, NY 10018**  
**(Address of principal executive offices) (Zip code)**

**Robert I. Frenkel, Esq.**

Edgar Filing: Western Asset Income Fund - Form N-CSRS

**Legg Mason & Co., LLC**

**100 First Stamford Place,**

**Stamford, CT 06902**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: (888) 777-0102**

**Date of fiscal year end: December 31**

**Date of reporting period: June 30, 2016**

ITEM 1. REPORT TO STOCKHOLDERS.

The **Semi-Annual** Report to Stockholders is filed herewith.

Semi-Annual Report

June 30, 2016

WESTERN ASSET

INCOME FUND (PAI)

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

|  |     |
|--|-----|
| <b>What's inside</b>                                       |     |
| <a href="#"><u>Letter from the president</u></a>           | III |
| <a href="#"><u>Investment commentary</u></a>               | IV  |
| <a href="#"><u>Fund at a glance</u></a>                    | 1   |
| <a href="#"><u>Spread duration</u></a>                     | 2   |
| <a href="#"><u>Effective duration</u></a>                  | 3   |
| <a href="#"><u>Schedule of investments</u></a>             | 4   |
| <a href="#"><u>Statement of assets and liabilities</u></a> | 17  |
| <a href="#"><u>Statement of operations</u></a>             | 18  |
| <a href="#"><u>Statements of changes in net assets</u></a> | 19  |
| <a href="#"><u>Financial highlights</u></a>                | 20  |
| <a href="#"><u>Notes to financial statements</u></a>       | 21  |
| <a href="#"><u>Additional shareholder information</u></a>  | 29  |
| <a href="#"><u>Dividend reinvestment plan</u></a>          | 30  |

## Fund objectives

The Fund seeks a high level of current income, consistent with prudent investment risk. Capital appreciation is a secondary objective.

The Fund's investment policies provide that its portfolio be invested as follows: at least 75% in debt securities rated within the four highest grades, and in government securities, bank debt, commercial paper, cash or cash equivalents; up to 25% in other fixed income securities, convertible bonds, convertible preferred and preferred stock; and not more than 25% in securities restricted as to resale. Trust preferred interests and capital securities are considered debt securities and not preferred stock for purposes of the foregoing guidelines.

## Letter from the president

### Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset Income Fund for the six-month reporting period ended June 30, 2016. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.lmcef.com](http://www.lmcef.com). Here you can gain immediate access to market and investment information, including:

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

President and Chief Executive Officer

July 29, 2016

## Investment commentary

### Economic review

The pace of U.S. economic activity fluctuated during the six months ended June 30, 2016 (the reporting period). Looking back, the U.S. Department of Commerce's revised figures showed that fourth quarter 2015 U.S. gross domestic product (GDP) growth was 0.9%. First quarter 2016 GDP growth then decelerated to 0.8%. The U.S. Department of Commerce's initial reading for second quarter 2016 GDP growth released after the reporting period ended was 1.2%. The improvement in GDP growth in the second quarter reflected an acceleration in personal consumption expenditures (PCE), an upturn in exports and smaller decreases in nonresidential fixed investment and in federal government spending.

While there was a pocket of weakness in May 2016, job growth in the U.S. was solid overall and a tailwind for the economy during the reporting period. When the period ended in June 2016, unemployment was 4.9%, as reported by the U.S. Department of Labor. The percentage of longer-term unemployed also declined over the period. In June 2016, 25.8% of Americans looking for a job had been out of work for more than six months, versus 26.9% when the period began.

## Market review

### Q. How did the Federal Reserve Board (the Fed) respond to the economic environment?

A. Looking back, after an extended period of maintaining the federal funds rate<sup>iii</sup> at a historically low range between zero and 0.25%, the Fed increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. In its official statement after the December 2015 meeting, the Fed said, "The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. At its meetings that concluded on January 27, 2016, March 16, 2016, April 27, 2016, June 15, 2016 and July 27, 2016 (after the reporting period ended), the Fed kept rates on hold.

### Q. Did Treasury yields trend higher or lower during the six months ended June 30, 2016?

A. Both short- and long-term Treasury yields moved sharply lower during the six months ended June 30, 2016. Two-year Treasury yields fell from a peak of 1.06% at the beginning of the period to a low of 0.58% at the end of the period. Ten-year Treasury yields began the reporting period at a peak of 2.27% and ended the period at 1.49%. Their low of 1.46% occurred on June 27 and June 28, 2016.

### Q. What factors impacted the spread sectors (non-Treasuries) during the reporting period?

A. The spread sectors generally posted positive results during the reporting period. Performance fluctuated with investor sentiment given signs of moderating global growth, shifting expectations for future Fed monetary policy, the U.K. referendum to leave the European Union (Brexit) and several geopolitical issues. The broad U.S. bond market, as measured by the Barclays U.S. Aggregate Index<sup>iv</sup>, gained 5.31% during the six months ended June 30, 2016. Higher risk segments of the market generated the best returns during the reporting period.

### Q. How did the high-yield bond market perform over the six months ended June 30, 2016?

A. The U.S. high-yield bond market, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index<sup>v</sup>, gained 9.06% for the six months ended June 30, 2016. The high-yield market was weak during the first month of the reporting period, due to falling oil prices and poor investor demand. After stabilizing in February 2016, the high-yield market rallied sharply over the last four months of the reporting period. This turnaround occurred as oil prices rebounded and the Fed reduced its expectations for rate hikes in 2016.

## Performance review

For the six months ended June 30, 2016, Western Asset Income Fund returned 8.06% based on its net asset value (NAV<sup>vi</sup>) and 11.74% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Corporate High Yield Index<sup>vii</sup> and the Barclays U.S. Credit Index<sup>viii</sup>,



## Investment commentary (cont d)

returned 9.06% and 7.54%, respectively, for the same period. The Lipper Corporate Debt Closed-End Funds BBB-Rated Category Average<sup>ix</sup> returned 6.79% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.35 per share. As of June 30, 2016, the Fund estimates that all of the distributions were sourced from net investment income.\* The performance table shows the Fund's six-month total return based on its NAV and market price as of June 30, 2016. **Past performance is no guarantee of future results.**

### Performance Snapshot as of June 30, 2016 (unaudited)

|                        | 6-Month<br>Total Return** |
|------------------------|---------------------------|
| Price Per Share        |                           |
| \$14.59 (NAV)          | 8.06%                     |
| \$14.18 (Market Price) | 11.74%                    |

**All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.**

**\*\* Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.**

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

### Looking for additional information?

The Fund is traded under the symbol PAI and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XPAIX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com) (click on the name of the Fund).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset Income Fund. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

\*This estimate is not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, please refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of our website, [www.lmcef.com](http://www.lmcef.com) (click on the name of the Fund).

Sincerely,

Jane Trust, CFA

President and Chief Executive Officer

July 29, 2016

***RISKS:** Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund may invest in high-yield bonds (commonly known as junk bonds), which are rated below investment grade and carry more risk than higher-rated securities. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. The Fund may invest, to a limited extent, in foreign securities, including emerging markets, which are subject to additional risks. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

- <sup>i</sup> Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- <sup>ii</sup> The Federal Reserve Board (the Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- <sup>iii</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Fed) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- <sup>iv</sup> The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- <sup>v</sup> The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- <sup>vi</sup> Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- <sup>vii</sup> The Barclays U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment grade debt, including corporate and non-corporate sectors. Pay-in-kind (PIK) bonds, Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging market countries are included. Original issue zero coupon bonds, step-up coupon structures and 144-A securities are also included.

## Edgar Filing: Western Asset Income Fund - Form N-CSRS

<sup>viii</sup> The Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).

<sup>ix</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended June 30, 2016, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category.

Western Asset Income Fund

VII

## Fund at a glance (unaudited)

**Investment breakdown (%)** as a percent of total investments

The bar graph above represents the Fund's portfolio as of June 30, 2016 and December 31, 2015, and does not include derivatives such as futures contracts. The Fund's portfolio is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.

## Spread duration (unaudited)

Economic exposure June 30, 2016

### Total Spread Duration

PAI 8.42 years

Benchmark 4.54 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

|           |                            |
|-----------|----------------------------|
| ABS       | Asset-Backed Securities    |
| Benchmark | Barclays U.S. Credit Index |
| EM        | Emerging Markets           |
| HY        | High Yield                 |
| IG Credit | Investment Grade Credit    |
| MBS       | Mortgage-Backed Securities |
| PAI       | Western Asset Income Fund  |

## Effective duration (unaudited)

Interest rate exposure June 30, 2016

Total Effective Duration

PAI 7.02 years

Benchmark 4.37 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

|           |                            |
|-----------|----------------------------|
| Benchmark | Barclays U.S. Credit Index |
| EM        | Emerging Markets           |
| HY        | High Yield                 |
| IG Credit | Investment Grade Credit    |
| PAI       | Western Asset Income Fund  |

## Schedule of investments (unaudited)

June 30, 2016

### Western Asset Income Fund

| Security  | Rate   | Maturity Date | Face Amount | Value                     |
|---|--------|---------------|-------------|---------------------------|
| <b>Corporate Bonds &amp; Notes 90.7%</b>  |        |               |             |                           |
| <b>Consumer Discretionary 8.8%</b>  |        |               |             |                           |
| <i>Auto Components 0.5%</i>   |        |               |             |                           |
| ZF North America Capital Inc., Senior Notes   | 4.750% | 4/29/25       | \$ 740,000  | \$ 749,709 <sup>(a)</sup> |
| <i>Automobiles 0.8%</i>   |        |               |             |                           |
| Ford Motor Credit Co., LLC, Senior Notes  | 8.125% | 1/15/20       | 410,000     | 488,997                   |
| General Motors Co., Senior Notes  | 6.600% | 4/1/36        | 170,000     | 194,940                   |
| General Motors Co., Senior Notes  | 5.200% | 4/1/45        | 310,000     | 307,125                   |
| General Motors Co., Senior Notes  | 6.750% | 4/1/46        | 80,000      | 94,895                    |
| <i>Total Automobiles</i>  |        |               |             | <i>1,085,957</i>          |
| <i>Hotels, Restaurants &amp; Leisure 0.4%</i>   |        |               |             |                           |
| GLP Capital LP/GLP Financing II Inc., Senior Notes  | 5.375% | 4/15/26       | 180,000     | 185,400                   |
| McDonald's Corp., Senior Notes  | 4.700% | 12/9/35       | 150,000     | 169,207                   |
| McDonald's Corp., Senior Notes  | 4.875% | 12/9/45       | 230,000     | 268,934                   |
| <i>Total Hotels, Restaurants &amp; Leisure</i>  |        |               |             | <i>623,541</i>            |
| <i>Household Durables 0.6%</i>  |        |               |             |                           |
| Newell Brands Inc., Senior Notes  | 4.200% | 4/1/26        | 710,000     | 769,676                   |
| <i>Media 6.3%</i>   |        |               |             |                           |
| 21st Century Fox America Inc., Senior Debentures  | 7.750% | 12/1/45       | 130,000     | 189,895                   |
| 21st Century Fox America Inc., Senior Notes   | 6.550% | 3/15/33       | 545,000     | 696,443                   |
| Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes | 6.384% | 10/23/35      | 110,000     | 130,260 <sup>(a)</sup>    |
| Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes | 6.484% | 10/23/45      | 260,000     | 310,446 <sup>(a)</sup>    |
| Comcast Corp., Bonds  | 6.400% | 5/15/38       | 950,000     | 1,307,656                 |
| Comcast Corp., Notes  | 6.450% | 3/15/37       | 220,000     | 302,715                   |
| Comcast Corp., Senior Notes   | 6.950% | 8/15/37       | 160,000     | 230,137                   |
| Time Warner Cable Inc., Debentures  | 7.300% | 7/1/38        | 100,000     | 125,224                   |
| Time Warner Cable Inc., Senior Bonds  | 6.550% | 5/1/37        | 160,000     | 186,434                   |
| Time Warner Cable Inc., Senior Notes  | 8.750% | 2/14/19       | 690,000     | 805,650                   |
| Time Warner Cable Inc., Senior Notes  | 5.500% | 9/1/41        | 50,000      | 52,519                    |
| Time Warner Entertainment Co., LP, Senior Notes   | 8.375% | 7/15/33       | 410,000     | 555,516                   |
| Time Warner Inc., Senior Debentures   | 7.700% | 5/1/32        | 595,000     | 830,696                   |
| Time Warner Inc., Senior Notes  | 4.900% | 6/15/42       | 150,000     | 161,123                   |
| UBM PLC, Notes  | 5.750% | 11/3/20       | 570,000     | 616,781 <sup>(a)</sup>    |
| Viacom Inc., Senior Debentures  | 5.250% | 4/1/44        | 70,000      | 65,596                    |
| Virgin Media Finance PLC, Senior Notes  | 6.375% | 4/15/23       | 1,000,000   | 1,000,000 <sup>(a)</sup>  |
| WPP Finance 2010, Senior Notes  | 4.750% | 11/21/21      | 840,000     | 931,818                   |

See Notes to Financial Statements.

## Western Asset Income Fund

|   | Rate    | Maturity Date | Face Amount | Value             |
|---|---------|---------------|-------------|-------------------|
| Security  |         |               |             |                   |
| <i>Media continued</i>                            |         |               |             |                   |
| WPP Finance 2010, Senior Notes                    | 5.625%  | 11/15/43      | \$ 150,000  | \$ 172,326        |
| <i>Total Media</i>                                |         |               |             | <i>8,671,235</i>  |
| <i>Multiline Retail 0.1%</i>                      |         |               |             |                   |
| Nordstrom Inc., Senior Notes                      | 5.000%  | 1/15/44       | 120,000     | 117,634           |
| <i>Specialty Retail 0.1%</i>                      |         |               |             |                   |
| American Greetings Corp., Senior Notes            | 7.375%  | 12/1/21       | 160,000     | 166,000           |
| <b>Total Consumer Discretionary</b>               |         |               |             | <b>12,183,752</b> |
| <i>Consumer Staples 5.5%</i>                      |         |               |             |                   |
| <i>Beverages 2.2%</i>                             |         |               |             |                   |
| Anheuser-Busch InBev Finance Inc., Senior Notes   | 4.900%  | 2/1/46        | 1,310,000   | 1,535,113         |
| Anheuser-Busch InBev Worldwide Inc., Senior Notes | 5.375%  | 1/15/20       | 260,000     | 291,865           |
| Pernod-Ricard SA, Senior Bonds                    | 5.750%  | 4/7/21        | 350,000     | 403,298 (a)       |
| Pernod-Ricard SA, Senior Notes                    | 5.500%  | 1/15/42       | 670,000     | 798,893 (a)       |
| <i>Total Beverages</i>                            |         |               |             | <i>3,029,169</i>  |
| <i>Food &amp; Staples Retailing 0.5%</i>          |         |               |             |                   |
| CVS Health Corp., Senior Notes                    | 5.125%  | 7/20/45       | 340,000     | 421,796           |
| Walgreens Boots Alliance Inc., Senior Notes       | 3.450%  | 6/1/26        | 320,000     | 328,492           |
| <i>Total Food &amp; Staples Retailing</i>         |         |               |             | <i>750,288</i>    |
| <i>Food Products 0.7%</i>                         |         |               |             |                   |
| Kraft Heinz Foods Co., Senior Notes               | 5.000%  | 7/15/35       | 70,000      | 80,284 (a)        |
| Kraft Heinz Foods Co., Senior Notes               | 5.000%  | 6/4/42        | 170,000     | 195,451           |
| Kraft Heinz Foods Co., Senior Notes               | 5.200%  | 7/15/45       | 250,000     | 296,040 (a)       |
| Kraft Heinz Foods Co., Senior Notes               | 4.375%  | 6/1/46        | 310,000     | 327,832 (a)       |
| <i>Total Food Products</i>                        |         |               |             | <i>899,607</i>    |
| <i>Tobacco 2.1%</i>                               |         |               |             |                   |
| Altria Group Inc., Senior Notes                   | 9.950%  | 11/10/38      | 680,000     | 1,223,282         |
| Altria Group Inc., Senior Notes                   | 10.200% | 2/6/39        | 230,000     | 426,232           |
| Philip Morris International Inc., Senior Notes    | 4.500%  | 3/20/42       | 100,000     | 112,555           |
| Reynolds American Inc., Senior Notes              | 8.125%  | 5/1/40        | 270,000     | 374,088           |
| Reynolds American Inc., Senior Notes              | 7.000%  | 8/4/41        | 320,000     | 403,126           |
| Reynolds American Inc., Senior Notes              | 5.850%  | 8/15/45       | 320,000     | 408,874           |
| <i>Total Tobacco</i>                              |         |               |             | <i>2,948,157</i>  |
| <b>Total Consumer Staples</b>                     |         |               |             | <b>7,627,221</b>  |
| <i>Energy 16.8%</i>                               |         |               |             |                   |
| <i>Energy Equipment &amp; Services 1.2%</i>       |         |               |             |                   |
| Baker Hughes Inc., Senior Notes                   | 7.500%  | 11/15/18      | 370,000     | 419,058           |
| ENSCO International Inc., Senior Bonds            | 7.200%  | 11/15/27      | 120,000     | 91,050            |
| EnSCO PLC, Senior Notes                           | 4.700%  | 3/15/21       | 10,000      | 8,309             |

See Notes to Financial Statements.



## Schedule of investments (unaudited) (cont d)

June 30, 2016

### Western Asset Income Fund

| Security   | Rate   | Maturity Date | Face Amount | Value                  |
|--|--------|---------------|-------------|------------------------|
| <i>Energy Equipment &amp; Services continued</i> |        |               |             |                        |
| EnSCO PLC, Senior Notes                          | 5.200% | 3/15/25       | \$ 480,000  | \$ 333,600             |
| Halliburton Co., Senior Notes                    | 5.000% | 11/15/45      | 200,000     | 219,977                |
| Petrofac Ltd., Senior Notes                      | 3.400% | 10/10/18      | 310,000     | 309,999 <sup>(a)</sup> |
| Pride International Inc., Senior Notes           | 8.500% | 6/15/19       | 20,000      | 20,350                 |
| Pride International Inc., Senior Notes           | 6.875% | 8/15/20       | 130,000     | 124,072                |
| Pride International Inc., Senior Notes           | 7.875% | 8/15/40       | 130,000     | 91,175                 |
| <i>Total Energy Equipment &amp; Services</i>     |        |               |             | <i>1,617,590</i>       |
| <i>Oil, Gas &amp; Consumable Fuels 15.6%</i>     |        |               |             |                        |
| Anadarko Finance Co., Senior Notes               | 7.500% | 5/1/31        | 465,000     | 556,724                |
| Anadarko Petroleum Corp., Senior Notes           | 4.850% | 3/15/21       | 460,000     | 487,882                |
| Anadarko Petroleum Corp., Senior Notes           | 5.550% | 3/15/26       | 460,000     | 507,969                |
| Apache Corp., Senior Notes                       | 6.900% | 9/15/18       | 100,000     | 109,529                |
| Apache Corp., Senior Notes                       | 6.000% | 1/15/37       | 190,000     | 216,792                |
| Apache Corp., Senior Notes                       | 5.100% | 9/1/40        | 160,000     | 166,635                |
| Apache Corp., Senior Notes                       | 5.250% | 2/1/42        | 90,000      | 93,399                 |
| ConocoPhillips, Notes                            | 6.500% | 2/1/39        | 810,000     | 1,045,143              |
| ConocoPhillips, Senior Notes                     | 6.000% | 1/15/20       | 310,000     | 352,580                |
| Devon Energy Corp., Senior Notes                 | 5.850% | 12/15/25      | 350,000     | 386,080                |
| Devon Energy Corp., Senior Notes                 | 5.600% | 7/15/41       | 320,000     | 309,179                |
| Devon Energy Corp., Senior Notes                 | 5.000% | 6/15/45       | 270,000     | 251,875                |
| Devon Financing Co., LLC, Debentures             | 7.875% | 9/30/31       | 380,000     | 442,196                |
| Ecopetrol SA, Senior Notes                       | 5.375% | 6/26/26       | 740,000     | 719,650                |
| Ecopetrol SA, Senior Notes                       | 5.875% | 5/28/45       | 176,000     | 152,944                |
| Enbridge Energy Partners LP, Senior Notes        | 9.875% | 3/1/19        | 120,000     | 137,596                |
| Energy Transfer Equity LP, Senior Notes          | 7.500% | 10/15/20      | 250,000     | 265,000                |
| Enterprise Products Operating LLC, Senior Notes  | 6.125% | 10/15/39      | 320,000     | 379,019                |
| EOG Resources Inc., Senior Notes                 | 5.875% | 9/15/17       | 540,000     | 568,531                |
| Hess Corp., Notes                                | 7.875% | 10/1/29       | 1,180,000   | 1,405,394              |
| Hess Corp., Senior Bonds                         | 6.000% | 1/15/40       | 300,000     | 310,238                |
| Kerr-McGee Corp., Notes                          | 6.950% | 7/1/24        | 1,080,000   | 1,248,724              |
| Kinder Morgan Inc., Medium-Term Notes            | 7.800% | 8/1/31        | 2,000,000   | 2,244,210              |
| LUKOIL International Finance BV, Senior Notes    | 4.563% | 4/24/23       | 200,000     | 202,530 <sup>(a)</sup> |
| MEG Energy Corp., Senior Notes                   | 6.375% | 1/30/23       | 600,000     | 444,000 <sup>(a)</sup> |
| Noble Energy Inc., Senior Notes                  | 6.000% | 3/1/41        | 390,000     | 419,429                |
| Noble Energy Inc., Senior Notes                  | 5.250% | 11/15/43      | 150,000     | 152,510                |
| Occidental Petroleum Corp., Senior Notes         | 3.400% | 4/15/26       | 400,000     | 421,877                |
| Petrobras Global Finance BV, Senior Notes        | 7.250% | 3/17/44       | 280,000     | 229,600                |
| Petroleos Mexicanos, Senior Bonds                | 6.625% | 6/15/35       | 2,635,000   | 2,716,685              |

See Notes to Financial Statements.

## Western Asset Income Fund

| Security  | Rate    | Maturity Date | Face Amount | Value                        |
|---|---------|---------------|-------------|------------------------------|
| <i>Oil, Gas &amp; Consumable Fuels continued</i>      |         |               |             |                              |
| Petroleos Mexicanos, Senior Notes                     | 6.875%  | 8/4/26        | \$ 450,000  | \$ 503,100 <sup>(a)</sup>    |
| Phillips 66, Senior Notes                             | 5.875%  | 5/1/42        | 160,000     | 192,129                      |
| Schlumberger Holdings Corp., Senior Notes             | 4.000%  | 12/21/25      | 440,000     | 473,543 <sup>(a)</sup>       |
| Shell International Finance BV, Senior Notes          | 6.375%  | 12/15/38      | 250,000     | 339,613                      |
| Transcontinental Gas Pipe Line Co., LLC, Senior Notes | 7.850%  | 2/1/26        | 470,000     | 584,916 <sup>(a)</sup>       |
| Transcontinental Gas Pipe Line Co., LLC, Senior Notes | 5.400%  | 8/15/41       | 310,000     | 304,305                      |
| Transcontinental Gas Pipe Line Co., LLC, Senior Notes | 4.450%  | 8/1/42        | 450,000     | 409,183                      |
| Western Gas Partners LP, Senior Notes                 | 4.650%  | 7/1/26        | 460,000     | 458,740                      |
| Williams Cos. Inc., Debentures                        | 7.500%  | 1/15/31       | 47,000      | 47,235                       |
| Williams Cos. Inc., Senior Notes                      | 4.550%  | 6/24/24       | 680,000     | 624,580                      |
| Williams Cos. Inc., Senior Notes                      | 7.750%  | 6/15/31       | 37,000      | 37,370                       |
| Williams Cos. Inc., Senior Notes                      | 8.750%  | 3/15/32       | 610,000     | 652,700                      |
| <i>Total Oil, Gas &amp; Consumable Fuels</i>          |         |               |             | <i>21,571,334</i>            |
| <b>Total Energy</b>                                   |         |               |             | <b>23,188,924</b>            |
| <b>Financials 34.3%</b>                               |         |               |             |                              |
| <i>Banks 19.5%</i>                                    |         |               |             |                              |
| Banco Nacional de Costa Rica, Senior Notes            | 5.875%  | 4/25/21       | 340,000     | 350,778 <sup>(a)</sup>       |
| Bank of America Corp., Junior Subordinated Notes      | 6.500%  | 10/23/24      | 350,000     | 372,750 <sup>(b)(c)</sup>    |
| Bank of America Corp., Senior Notes                   | 6.500%  | 8/1/16        | 70,000      | 70,269                       |
| Bank of America Corp., Senior Notes                   | 6.400%  | 8/28/17       | 300,000     | 316,549                      |
| Bank of America Corp., Senior Notes                   | 7.625%  | 6/1/19        | 70,000      | 81,020                       |
| Bank of America Corp., Senior Notes                   | 5.625%  | 7/1/20        | 30,000      | 33,751                       |
| Bank of America Corp., Senior Notes                   | 5.875%  | 2/7/42        | 320,000     | 403,924                      |
| Bank of America Corp., Subordinated Notes             | 5.700%  | 5/2/17        | 1,000,000   | 1,035,177                    |
| Bank of America Corp., Subordinated Notes             | 6.110%  | 1/29/37       | 320,000     | 379,824                      |
| Bank of America Corp., Subordinated Notes             | 7.750%  | 5/14/38       | 900,000     | 1,267,286                    |
| Barclays Bank PLC, Subordinated Notes                 | 10.179% | 6/12/21       | 240,000     | 302,166 <sup>(a)</sup>       |
| Barclays Bank PLC, Subordinated Notes                 | 7.625%  | 11/21/22      | 450,000     | 484,313                      |
| BNP Paribas SA, Junior Subordinated Notes             | 7.625%  | 3/30/21       | 330,000     | 330,000 <sup>(a)(b)(c)</sup> |
| BNP Paribas SA, Junior Subordinated Notes             | 7.375%  | 8/19/25       | 200,000     | 195,800 <sup>(a)(b)(c)</sup> |
| BPCE SA, Subordinated Notes                           | 5.150%  | 7/21/24       | 410,000     | 426,648 <sup>(a)</sup>       |
| Citigroup Inc., Junior Subordinated Bonds             | 6.300%  | 5/15/24       | 280,000     | 278,572 <sup>(b)(c)</sup>    |
| Citigroup Inc., Junior Subordinated Bonds             | 5.950%  | 5/15/25       | 540,000     | 527,850 <sup>(b)(c)</sup>    |
| Citigroup Inc., Junior Subordinated Bonds             | 6.250%  | 8/15/26       | 350,000     | 359,625 <sup>(b)(c)</sup>    |
| Citigroup Inc., Junior Subordinated Notes             | 5.950%  | 1/30/23       | 200,000     | 197,625 <sup>(b)(c)</sup>    |
| Citigroup Inc., Senior Notes                          | 8.125%  | 7/15/39       | 251,000     | 391,468                      |
| Citigroup Inc., Senior Notes                          | 5.875%  | 1/30/42       | 240,000     | 303,791                      |
| Citigroup Inc., Subordinated Notes                    | 5.500%  | 9/13/25       | 750,000     | 840,706                      |

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

June 30, 2016

### Western Asset Income Fund

| Security  | Rate    | Maturity Date | Face Amount | Value               |
|---|---------|---------------|-------------|---------------------|
| <i>Banks continued</i>                                      |         |               |             |                     |
| Citigroup Inc., Subordinated Notes                          | 4.450%  | 9/29/27       | \$ 400,000  | \$ 412,044          |
| Citigroup Inc., Subordinated Notes                          | 6.125%  | 8/25/36       | 404,000     | 482,273             |
| Citigroup Inc., Subordinated Notes                          | 6.675%  | 9/13/43       | 370,000     | 475,019             |
| Cooperatieve Rabobank U.A., Junior Subordinated Notes       | 11.000% | 6/30/19       | 708,000     | 844,290 (a)(b)(c)   |
| Cooperatieve Rabobank U.A., Senior Notes                    | 5.250%  | 5/24/41       | 570,000     | 709,157             |
| Cooperatieve Rabobank U.A., Subordinated Notes              | 5.750%  | 12/1/43       | 450,000     | 524,246             |
| Cooperatieve Rabobank U.A., Subordinated Notes              | 5.250%  | 8/4/45        | 340,000     | 377,961             |
| Credit Agricole SA, Junior Subordinated Notes               | 8.375%  | 10/13/19      | 560,000     | 625,212 (a)(b)(c)   |
| Credit Agricole SA, Junior Subordinated Notes               | 8.125%  | 12/23/25      | 1,040,000   | 1,032,891 (a)(b)(c) |
| HSBC Holdings PLC, Junior Subordinated Bonds                | 6.375%  | 9/17/24       | 1,430,000   | 1,351,350 (b)(c)    |
| HSBC Holdings PLC, Junior Subordinated Bonds                | 6.375%  | 3/30/25       | 350,000     | 333,375 (b)(c)      |
| HSBC Holdings PLC, Subordinated Notes                       | 4.250%  | 8/18/25       | 210,000     | 211,916             |
| HSBC Holdings PLC, Subordinated Notes                       | 5.250%  | 3/14/44       | 210,000     | 221,869             |
| ING Bank NV, Subordinated Notes                             | 5.800%  | 9/25/23       | 600,000     | 658,450 (a)         |
| Intesa Sanpaolo SpA, Subordinated Bonds                     | 5.017%  | 6/26/24       | 250,000     | 228,874 (a)         |
| JPMorgan Chase & Co., Junior Subordinated Bonds             | 5.150%  | 5/1/23        | 150,000     | 145,890 (b)(c)      |
| JPMorgan Chase & Co., Junior Subordinated Bonds             | 6.000%  | 8/1/23        | 260,000     | 265,525 (b)(c)      |
| JPMorgan Chase & Co., Subordinated Notes                    | 6.125%  | 6/27/17       | 720,000     | 753,055             |
| JPMorgan Chase & Co., Subordinated Notes                    | 5.625%  | 8/16/43       | 440,000     | 513,715             |
| JPMorgan Chase & Co., Subordinated Notes                    | 4.950%  | 6/1/45        | 150,000     | 164,697             |
| Lloyds Banking Group PLC, Subordinated Notes                | 4.650%  | 3/24/26       | 590,000     | 597,442             |
| M&T Bank Corp., Junior Subordinated Bonds                   | 6.875%  | 8/1/16        | 880,000     | 882,200 (b)         |
| Royal Bank of Scotland Group PLC, Junior Subordinated Bonds | 7.648%  | 9/30/31       | 1,360,000   | 1,604,800 (b)(c)    |
| Royal Bank of Scotland Group PLC, Subordinated Notes        | 6.125%  | 12/15/22      | 310,000     | 325,101             |
| Royal Bank of Scotland Group PLC, Subordinated Notes        | 6.100%  | 6/10/23       | 1,010,000   | 1,032,965           |
| Royal Bank of Scotland Group PLC, Subordinated Notes        | 6.000%  | 12/19/23      | 350,000     | 355,646             |
| Royal Bank of Scotland NV, Subordinated Bonds               | 7.750%  | 5/15/23       | 480,000     | 537,483             |
| Santander UK Group Holdings PLC, Subordinated Notes         | 4.750%  | 9/15/25       | 210,000     | 207,274 (a)         |
| Standard Chartered PLC, Subordinated Notes                  | 5.700%  | 3/26/44       | 410,000     | 417,167 (a)         |
| Wachovia Capital Trust III, Junior Subordinated Bonds       | 5.570%  | 8/1/16        | 1,190,000   | 1,175,170 (b)(c)    |
| Wells Fargo & Co., Subordinated Notes                       | 5.375%  | 11/2/43       | 430,000     | 500,938             |
| <i>Total Banks</i>  |         |               |             | <i>26,917,887</i>   |
| <i>Capital Markets 5.2%</i>                                 |         |               |             |                     |
| Credit Suisse Group AG, Junior Subordinated Notes           | 6.250%  | 12/18/24      | 1,170,000   | 1,101,061 (a)(b)(c) |
| Credit Suisse Group Funding Guernsey Ltd., Senior Notes     | 4.875%  | 5/15/45       | 850,000     | 846,442             |
| Goldman Sachs Group Inc., Senior Bonds                      | 4.750%  | 10/21/45      | 270,000     | 297,617             |
| Goldman Sachs Group Inc., Senior Notes                      | 5.375%  | 3/15/20       | 270,000     | 300,326             |

See Notes to Financial Statements.

Western Asset Income Fund

| Security  | Rate   | Maturity Date | Face Amount | Value            |
|---|--------|---------------|-------------|------------------|
| <i>Capital Markets continued</i>                                  |        |               |             |                  |
| Goldman Sachs Group Inc., Senior Notes                            | 6.250% | 2/1/41        | \$ 570,000  | \$ 737,639       |
| Goldman Sachs Group Inc., Subordinated Notes                      | 6.750% | 10/1/37       | 640,000     | 789,462          |
| Goldman Sachs Group Inc., Subordinated Notes                      | 5.150% | 5/22/45       | 500,000     | 521,630          |
| KKR Group Finance Co. III LLC, Senior Bonds                       | 5.125% | 6/1/44        | 820,000     | 828,623 (a)      |
| Morgan Stanley, Medium-Term Notes                                 | 6.625% | 4/1/18        | 100,000     | 108,377          |
| Morgan Stanley, Senior Notes                                      | 5.500% | 7/24/20       | 100,000     | 112,212          |
| Morgan Stanley, Senior Notes                                      | 6.375% | 7/24/42       | 90,000      | 121,880          |
| Pershing Square Holdings Ltd., Senior Notes                       | 5.500% | 7/15/22       | 1,000,000   | 956,250 (a)      |
| UBS AG Stamford CT, Subordinated Notes                            | 7.625% | 8/17/22       | 340,000     | 385,050          |
| <i>Total Capital Markets</i>                                      |        |               |             | <i>7,106,569</i> |
| <i>Consumer Finance 2.2%</i>                                      |        |               |             |                  |
| Ally Financial Inc., Subordinated Notes                           | 8.000% | 12/31/18      | 201,000     | 219,593          |
| Capital One Financial Corp., Senior Notes                         | 6.750% | 9/15/17       | 230,000     | 243,916          |
| HSBC Finance Corp., Senior Notes                                  | 6.676% | 1/15/21       | 1,300,000   | 1,456,655        |
| Navient Corp., Senior Notes                                       | 7.250% | 1/25/22       | 830,000     | 790,575          |
| Navient Corp., Senior Notes                                       | 6.125% | 3/25/24       | 290,000     | 254,475          |
| <i>Total Consumer Finance</i>                                     |        |               |             | <i>2,965,214</i> |
| <i>Diversified Financial Services 3.2%</i>                        |        |               |             |                  |
| Argos Merger Sub Inc., Senior Notes                               | 7.125% | 3/15/23       | 60,000      | 61,800 (a)       |
| Beaver Valley Funding Corp., Senior Secured Bonds                 | 9.000% | 6/1/17        | 2,000       | 2,010            |
| Blackstone Holdings Finance Co., LLC, Senior Notes                | 4.450% | 7/15/45       | 190,000     | 191,754 (a)      |
| Carlyle Holdings II Finance LLC, Senior Secured Notes             | 5.625% | 3/30/43       | 220,000     | 241,842 (a)      |
| CME Group Inc., Senior Notes                                      | 5.300% | 9/15/43       | 440,000     | 562,153          |
| ILFC E-Capital Trust I, Junior Subordinated Notes                 | 3.980% | 12/21/65      | 470,000     | 368,950 (a)(c)   |
| ILFC E-Capital Trust II, Bonds                                    | 4.230% | 12/21/65      | 790,000     | 624,100 (a)(c)   |
| International Lease Finance Corp., Senior Notes                   | 8.750% | 3/15/17       | 190,000     | 198,360          |
| International Lease Finance Corp., Senior Notes                   | 8.875% | 9/1/17        | 470,000     | 501,138          |
| International Lease Finance Corp., Senior Notes                   | 6.250% | 5/15/19       | 130,000     | 139,263          |
| International Lease Finance Corp., Senior Notes                   | 8.250% | 12/15/20      | 190,000     | 224,641          |
| International Lease Finance Corp., Senior Secured Notes           | 7.125% | 9/1/18        | 700,000     | 768,558 (a)      |
| Voya Financial Inc., Senior Notes                                 | 5.700% | 7/15/43       | 500,000     | 565,201          |
| <i>Total Diversified Financial Services</i>                       |        |               |             | <i>4,449,770</i> |
| <i>Insurance 3.6%</i>   |        |               |             |                  |
| AIA Group Ltd., Senior Notes                                      | 4.875% | 3/11/44       | 400,000     | 457,562 (a)      |
| Allstate Corp., Junior Subordinated Debentures                    | 6.500% | 5/15/57       | 480,000     | 518,400 (c)      |
| American Equity Investment Life Holding Co., Senior Notes         | 6.625% | 7/15/21       | 60,000      | 60,900           |
| American International Group Inc., Junior Subordinated Debentures | 6.250% | 3/15/87       | 80,000      | 81,600 (c)       |

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

June 30, 2016

### Western Asset Income Fund

| Security  | Rate   | Maturity Date | Face Amount | Value                  |
|---|--------|---------------|-------------|------------------------|
| <i>Insurance continued</i>  |        |               |             |                        |
| American International Group Inc., Senior Notes                   | 6.400% | 12/15/20      | \$ 90,000   | \$ 105,845             |
| Aon PLC, Senior Notes   | 4.750% | 5/15/45       | 90,000      | 96,542                 |
| AXA SA, Subordinated Bonds  | 8.600% | 12/15/30      | 200,000     | 274,000                |
| Delphi Financial Group Inc., Senior Notes                         | 7.875% | 1/31/20       | 170,000     | 196,693                |
| Fidelity & Guaranty Life Holdings Inc., Senior Notes              | 6.375% | 4/1/21        | 190,000     | 190,000 <sup>(a)</sup> |
| Liberty Mutual Group Inc., Junior Subordinated Bonds              | 7.800% | 3/15/37       | 190,000     | 207,100 <sup>(a)</sup> |
| Liberty Mutual Insurance Co., Subordinated Notes                  | 7.875% | 10/15/26      | 490,000     | 620,579 <sup>(a)</sup> |
| MetLife Inc., Junior Subordinated Debentures                      | 6.400% | 12/15/36      | 1,150,000   | 1,227,648              |
| Prudential Financial Inc., Junior Subordinated Debentures         | 8.875% | 6/15/38       | 340,000     | 374,000 <sup>(c)</sup> |
| Teachers Insurance & Annuity Association of America, Notes        | 6.850% | 12/16/39      | 400,000     | 543,382 <sup>(a)</sup> |
| <i>Total Insurance</i>  |        |               |             | <i>4,954,251</i>       |
| <i>Real Estate Management &amp; Development 0.6%</i>              |        |               |             |                        |
| Caesars Entertainment Resort Properties LLC, Senior Secured Notes | 8.000% | 10/1/20       | 500,000     | 501,250                |
| Security Capital Group Inc., Senior Notes                         | 7.700% | 6/15/28       | 280,000     | 388,580                |
| <i>Total Real Estate Management &amp; Development</i>             |        |               |             | <i>889,830</i>         |
| <b>Total Financials</b>   |        |               |             |                        |
| <b>Health Care 2.7%</b>   |        |               |             | <b>47,283,521</b>      |
| <i>Biotechnology 1.3%</i>   |        |               |             |                        |
| AbbVie Inc., Senior Subordinated Notes                            | 4.700% | 5/14/45       | 180,000     | 190,359                |
| Amgen Inc., Senior Bonds  | 4.663% | 6/15/51       | 469,000     | 490,017 <sup>(a)</sup> |
| Celgene Corp., Senior Notes                                       | 5.000% | 8/15/45       | 300,000     | 330,402                |
| Gilead Sciences Inc., Senior Notes                                | 5.650% | 12/1/41       | 60,000      | 75,090                 |
| Gilead Sciences Inc., Senior Notes                                | 4.500% | 2/1/45        | 450,000     | 490,507                |
| Gilead Sciences Inc., Senior Notes                                | 4.750% | 3/1/46        | 230,000     | 261,534                |
| <i>Total Biotechnology</i>  |        |               |             | <i>1,837,909</i>       |
| <i>Health Care Providers &amp; Services 0.9%</i>                  |        |               |             |                        |
| Aetna Inc., Senior Notes  | 4.375% | 6/15/46       | 410,000     | 425,784                |
| Anthem Inc., Senior Notes   | 5.875% | 6/15/17       | 290,000     | 302,229                |
| Catholic Health Initiatives, Secured Bonds                        | 4.350% | 11/1/42       | 30,000      | 30,264                 |
| Humana Inc., Senior Notes   | 8.150% | 6/15/38       | 80,000      | 115,980                |
| UnitedHealth Group Inc., Senior Notes                             | 6.000% | 11/15/17      | 31,000      | 33,043                 |
| Universal Hospital Services Inc., Secured Notes                   | 7.625% | 8/15/20       | 360,000     | 330,750                |
| <i>Total Health Care Providers &amp; Services</i>                 |        |               |             | <i>1,238,050</i>       |
| <i>Pharmaceuticals 0.5%</i>                                       |        |               |             |                        |
| Actavis Funding SCS, Senior Notes                                 | 4.550% | 3/15/35       | 190,000     | 195,267                |
| Actavis Funding SCS, Senior Notes                                 | 4.750% | 3/15/45       | 360,000     | 378,026                |

See Notes to Financial Statements.

## Western Asset Income Fund

|  | Rate   | Maturity Date | Face Amount | Value                     |
|--|--------|---------------|-------------|---------------------------|
| Security   |        |               |             |                           |
| <i>Pharmaceuticals continued</i>   |        |               |             |                           |
| Zoetis Inc., Senior Notes  | 4.700% | 2/1/43        | \$ 30,000   | \$ 29,726                 |
| <i>Total Pharmaceuticals</i>   |        |               |             | <i>603,019</i>            |
| <b>Total Health Care</b>   |        |               |             | <b>3,678,978</b>          |
| <b>Industrials 5.0%</b>  |        |               |             |                           |
| <i>Aerospace &amp; Defense 0.5%</i>  |        |               |             |                           |
| Lockheed Martin Corp., Senior Notes  | 3.350% | 9/15/21       | 60,000      | 63,967                    |
| Lockheed Martin Corp., Senior Notes  | 4.500% | 5/15/36       | 40,000      | 44,648                    |
| Lockheed Martin Corp., Senior Notes  | 4.700% | 5/15/46       | 320,000     | 377,207                   |
| United Technologies Corp., Senior Notes                                    | 6.125% | 2/1/19        | 200,000     | 224,856                   |
| <i>Total Aerospace &amp; Defense</i>                                       |        |               |             | <i>710,678</i>            |
| <i>Airlines 0.8%</i>   |        |               |             |                           |
| Continental Airlines Inc., Pass-Through Certificates, Secured Notes        | 9.250% | 5/10/17       | 78,716      | 82,848                    |
| Continental Airlines Inc., Pass-Through Certificates, Secured Notes        | 6.250% | 4/11/20       | 118,310     | 125,882                   |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 6.545% | 2/2/19        | 87,493      | 93,289                    |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 7.250% | 11/10/19      | 152,323     | 174,029                   |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 7.256% | 3/15/20       | 95,224      | 101,890                   |
| Delta Air Lines Inc., Pass-Through Certificates, Secured Notes             | 8.021% | 8/10/22       | 71,955      | 82,388                    |
| Delta Air Lines Inc., Pass-Through Certificates, Senior Secured Notes      | 7.750% | 12/17/19      | 132,264     | 149,141                   |
| United Airlines Inc., Pass-Through Certificates, Secured Notes             | 9.750% | 1/15/17       | 45,246      | 46,785                    |
| US Airways, Pass-Through Trust, Senior Secured Bonds                       | 5.900% | 10/1/24       | 287,800     | 329,531                   |
| <i>Total Airlines</i>  |        |               |             | <i>1,185,783</i>          |
| <i>Commercial Services &amp; Supplies 1.1%</i>                             |        |               |             |                           |
| Republic Services Inc., Senior Notes                                       | 5.500% | 9/15/19       | 130,000     | 145,171                   |
| Republic Services Inc., Senior Notes                                       | 5.250% | 11/15/21      | 330,000     | 381,397                   |
| Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes    | 5.250% | 4/15/21       | 600,000     | 598,500 <sup>(a)</sup>    |
| Waste Management Inc., Senior Notes  | 7.750% | 5/15/32       | 250,000     | 355,015                   |
| <i>Total Commercial Services &amp; Supplies</i>                            |        |               |             | <i>1,480,083</i>          |
| <i>Construction &amp; Engineering 0.6%</i>                                 |        |               |             |                           |
| Valmont Industries Inc., Senior Notes                                      | 6.625% | 4/20/20       | 790,000     | 894,370                   |
| <i>Industrial Conglomerates 1.5%</i>                                       |        |               |             |                           |
| General Electric Co., Junior Subordinated Bonds                            | 5.000% | 1/21/21       | 710,000     | 753,310 <sup>(b)(c)</sup> |
| General Electric Co., Senior Notes   | 5.875% | 1/14/38       | 120,000     | 162,296                   |

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

June 30, 2016

### Western Asset Income Fund

|   | Rate   | Maturity Date | Face Amount | Value                  |
|---|--------|---------------|-------------|------------------------|
| Security  |        |               |             |                        |
| <i>Industrial Conglomerates continued</i>   |        |               |             |                        |
| General Electric Co., Senior Notes  | 6.875% | 1/10/39       | \$ 646,000  | \$ 975,104             |
| General Electric Co., Subordinated Notes  | 5.300% | 2/11/21       | 138,000     | 160,106                |
| <i>Total Industrial Conglomerates</i>   |        |               |             | <i>2,050,816</i>       |
| <i>Machinery 0.2%</i>   |        |               |             |                        |
| Caterpillar Inc., Senior Notes  | 4.750% | 5/15/64       | 220,000     | 244,859                |
| <i>Road &amp; Rail 0.3%</i>   |        |               |             |                        |
| Flexi-Van Leasing Inc., Senior Notes  | 7.875% | 8/15/18       | 60,000      | 58,200 <sup>(a)</sup>  |
| Union Pacific Corp., Senior Notes   | 4.375% | 11/15/65      | 320,000     | 342,152                |
| <i>Total Road &amp; Rail</i>  |        |               |             | <i>400,352</i>         |
| <b>Total Industrials</b>  |        |               |             | <b>6,966,941</b>       |
| <i>Information Technology 2.7%</i>  |        |               |             |                        |
| <i>Communications Equipment 0.8%</i>  |        |               |             |                        |
| Harris Corp., Senior Notes  | 5.550% | 10/1/21       | 520,000     | 589,912                |
| Harris Corp., Senior Notes  | 4.854% | 4/27/35       | 260,000     | 285,422                |
| Harris Corp., Senior Notes  | 5.054% | 4/27/45       | 210,000     | 238,190                |
| <i>Total Communications Equipment</i>   |        |               |             | <i>1,113,524</i>       |
| <i>Electronic Equipment, Instruments &amp; Components 0.2%</i>                                |        |               |             |                        |
| Interface Security Systems Holdings Inc./Interface Security Systems LLC, Senior Secured Notes | 9.250% | 1/15/18       | 290,000     | 278,516                |
| <i>IT Services 0.4%</i>   |        |               |             |                        |
| HP Enterprise Services LLC, Notes   | 7.450% | 10/15/29      | 420,000     | 509,818                |
| <i>Semiconductors &amp; Semiconductor Equipment 0.5%</i>                                      |        |               |             |                        |
| Intel Corp., Senior Notes   | 4.900% | 7/29/45       | 130,000     | 151,433                |
| KLA-Tencor Corp., Senior Notes  | 4.650% | 11/1/24       | 360,000     | 392,715                |
| National Semiconductor Corp., Senior Notes  | 6.600% | 6/15/17       | 110,000     | 115,816                |
| QUALCOMM Inc., Senior Subordinated Notes  | 4.800% | 5/20/45       | 50,000      | 52,448                 |
| <i>Total Semiconductors &amp; Semiconductor Equipment</i>                                     |        |               |             | <i>712,412</i>         |
| <i>Software 0.1%</i>  |        |               |             |                        |
| Oracle Corp., Senior Notes  | 4.000% | 7/15/46       | 120,000     | 120,985                |
| <i>Technology Hardware, Storage &amp; Peripherals 0.7%</i>                                    |        |               |             |                        |
| Diamond 1 Finance Corp./Diamond 2 Finance Corp., Senior Secured Notes                         | 4.420% | 6/15/21       | 620,000     | 638,148 <sup>(a)</sup> |
| HP Inc., Senior Notes   | 4.650% | 12/9/21       | 310,000     | 335,224                |
| <i>Total Technology Hardware, Storage &amp; Peripherals</i>                                   |        |               |             | <i>973,372</i>         |
| <b>Total Information Technology</b>   |        |               |             | <b>3,708,627</b>       |
| <i>Materials 6.1%</i>   |        |               |             |                        |
| <i>Chemicals 0.9%</i>   |        |               |             |                        |
| Dow Chemical Co., Debentures  | 7.375% | 11/1/29       | 800,000     | 1,072,622              |

See Notes to Financial Statements.

## Western Asset Income Fund

| Security  | Rate   | Maturity Date | Face Amount | Value                     |
|---|--------|---------------|-------------|---------------------------|
| <i>Chemicals continued</i>                          |        |               |             |                           |
| Ecolab Inc., Senior Notes                           | 5.500% | 12/8/41       | \$ 140,000  | \$ 174,439                |
| <i>Total Chemicals</i>                              |        |               |             | <i>1,247,061</i>          |
| <i>Containers &amp; Packaging 0.2%</i>              |        |               |             |                           |
| WestRock RKT Co., Senior Notes                      | 4.450% | 3/1/19        | 230,000     | 243,044                   |
| <i>Metals &amp; Mining 4.5%</i>                     |        |               |             |                           |
| Alcoa Inc., Senior Notes                            | 5.870% | 2/23/22       | 800,000     | 836,160                   |
| Alcoa Inc., Senior Notes                            | 5.125% | 10/1/24       | 320,000     | 319,200                   |
| Barrick Gold Corp., Senior Notes                    | 4.100% | 5/1/23        | 618,000     | 651,907                   |
| Barrick North America Finance LLC, Senior Notes     | 5.700% | 5/30/41       | 50,000      | 51,642                    |
| Barrick PD Australia Finance Pty Ltd., Senior Notes | 5.950% | 10/15/39      | 40,000      | 41,791                    |
| BHP Billiton Finance USA Ltd., Senior Notes         | 5.000% | 9/30/43       | 100,000     | 116,197                   |
| BHP Billiton Finance USA Ltd., Subordinated Notes   | 6.750% | 10/19/75      | 470,000     | 499,375 <sup>(a)(c)</sup> |
| Freeport-McMoRan Inc., Senior Notes                 | 2.150% | 3/1/17        | 90,000      | 89,325                    |
| Freeport-McMoRan Inc., Senior Notes                 | 2.300% | 11/14/17      | 100,000     | 98,250                    |
| Freeport-McMoRan Inc., Senior Notes                 | 2.375% | 3/15/18       | 80,000      | 78,400                    |
| Freeport-McMoRan Inc., Senior Notes                 | 3.550% | 3/1/22        | 60,000      | 52,800                    |
| Glencore Finance Canada Ltd., Senior Notes          | 2.700% | 10/25/17      | 110,000     | 109,588 <sup>(a)</sup>    |
| Glencore Finance Canada Ltd., Senior Notes          | 6.900% | 11/15/37      | 430,000     | 399,900 <sup>(a)</sup>    |
| Rio Tinto Finance USA Ltd., Senior Notes            | 9.000% | 5/1/19        | 660,000     | 793,014                   |
| Southern Copper Corp., Senior Notes                 | 5.375% | 4/16/20       | 150,000     | 162,799                   |
| Southern Copper Corp., Senior Notes                 | 5.250% | 11/8/42       | 470,000     | 416,677                   |
| Steel Dynamics Inc., Senior Notes                   | 6.125% | 8/15/19       | 140,000     | 144,900                   |
| Vale Overseas Ltd., Senior Notes                    | 6.875% | 11/21/36      | 1,148,000   | 1,044,680                 |
| Yamana Gold Inc., Senior Notes                      | 4.950% | 7/15/24       | 370,000     | 364,006                   |
| <i>Total Metals &amp; Mining</i>                    |        |               |             | <i>6,270,611</i>          |
| <i>Paper &amp; Forest Products 0.5%</i>             |        |               |             |                           |
| Fibria Overseas Finance Ltd., Senior Notes          | 5.250% | 5/12/24       | 310,000     | 316,975                   |
| Georgia-Pacific LLC, Senior Bonds                   | 7.375% | 12/1/25       | 250,000     | 333,165                   |
| <i>Total Paper &amp; Forest Products</i>            |        |               |             | <i>650,140</i>            |
| <b>Total Materials</b>                              |        |               |             | <b>8,410,856</b>          |
| <i>Telecommunication Services 6.3%</i>              |        |               |             |                           |
| <i>Diversified Telecommunication Services 4.8%</i>  |        |               |             |                           |
| AT&T Inc., Senior Notes                             | 4.500% | 5/15/35       | 360,000     | 368,277                   |
| AT&T Inc., Senior Notes                             | 5.350% | 9/1/40        | 300,000     | 328,168                   |
| AT&T Inc., Senior Notes                             | 5.550% | 8/15/41       | 300,000     | 336,110                   |
| AT&T Inc., Senior Notes                             | 4.750% | 5/15/46       | 260,000     | 266,467                   |
| British Telecommunications PLC, Bonds               | 9.375% | 12/15/30      | 330,000     | 508,425                   |
| Intelsat Jackson Holdings SA, Senior Bonds          | 5.500% | 8/1/23        | 750,000     | 476,250                   |

See Notes to Financial Statements.



## Schedule of investments (unaudited) (cont'd)

June 30, 2016

### Western Asset Income Fund

| Security  | Rate   | Maturity Date | Face Amount | Value                     |
|---|--------|---------------|-------------|---------------------------|
| <i>Diversified Telecommunication Services continued</i>       |        |               |             |                           |
| Koninklijke KPN NV, Senior Notes                              | 8.375% | 10/1/30       | \$ 200,000  | \$ 276,630                |
| Qwest Corp., Debentures                                       | 6.875% | 9/15/33       | 850,000     | 838,184                   |
| Telefonica Emisiones SAU, Senior Notes                        | 7.045% | 6/20/36       | 60,000      | 76,655                    |
| Verizon Communications Inc., Senior Notes                     | 5.150% | 9/15/23       | 1,790,000   | 2,084,680                 |
| Verizon Communications Inc., Senior Notes                     | 5.050% | 3/15/34       | 210,000     | 233,078                   |
| Verizon Communications Inc., Senior Notes                     | 5.012% | 8/21/54       | 849,000     | 897,862                   |
| <i>Total Diversified Telecommunication Services</i>           |        |               |             | <i>6,690,786</i>          |
| <i>Wireless Telecommunication Services 1.5%</i>               |        |               |             |                           |
| America Movil SAB de CV, Senior Notes                         | 6.125% | 3/30/40       | 850,000     | 1,042,188                 |
| Sprint Communications Inc., Senior Notes                      | 9.000% | 11/15/18      | 50,000      | 53,250 <sup>(a)</sup>     |
| Sprint Corp., Senior Notes                                    | 7.250% | 9/15/21       | 330,000     | 281,325                   |
| Sprint Corp., Senior Notes                                    | 7.875% | 9/15/23       | 400,000     | 327,000                   |
| Telefonica Europe BV, Senior Notes                            | 8.250% | 9/15/30       | 230,000     | 328,859                   |
| <i>Total Wireless Telecommunication Services</i>              |        |               |             | <i>2,032,622</i>          |
| <b>Total Telecommunication Services</b>                       |        |               |             | <b>8,723,408</b>          |
| <i>Utilities 2.5%</i>   |        |               |             |                           |
| <i>Electric Utilities 2.4%</i>                                |        |               |             |                           |
| CenterPoint Energy Houston Electric LLC, Senior Secured Bonds | 4.500% | 4/1/44        | 210,000     | 247,751                   |
| Enersis Americas SA, Notes                                    | 7.400% | 12/1/16       | 452,000     | 462,402                   |
| Exelon Corp., Senior Notes                                    | 3.400% | 4/15/26       | 650,000     | 679,333                   |
| FirstEnergy Corp., Notes                                      | 7.375% | 11/15/31      | 830,000     | 1,030,212                 |
| Pacific Gas & Electric Co., First Mortgage Bonds              | 6.050% | 3/1/34        | 130,000     | 173,206                   |
| Virginia Electric and Power Co., Senior Notes                 | 8.875% | 11/15/38      | 390,000     | 653,416                   |
| <i>Total Electric Utilities</i>                               |        |               |             | <i>3,246,320</i>          |
| <i>Gas Utilities 0.1%</i>                                     |        |               |             |                           |
| Southern Natural Gas Co., LLC, Senior Notes                   | 5.900% | 4/1/17        | 170,000     | 174,522 <sup>(a)</sup>    |
| <b>Total Utilities</b>  |        |               |             | <b>3,420,842</b>          |
| <b>Total Corporate Bonds &amp; Notes (Cost \$114,878,080)</b> |        |               |             | <b>125,193,070</b>        |
| <i>Asset-Backed Securities 0.5%</i>                           |        |               |             |                           |
| GoldenTree Loan Opportunities Ltd., 2015-10A D                | 3.984% | 7/20/27       | 250,000     | 225,337 <sup>(a)(c)</sup> |
| Madison Park Funding Ltd., 2013-11A C                         | 3.388% | 10/23/25      | 250,000     | 241,879 <sup>(a)(c)</sup> |
| Regatta IV Funding Ltd., 2014-1A D                            | 4.138% | 7/25/26       | 250,000     | 222,286 <sup>(a)(c)</sup> |
| <b>Total Asset-Backed Securities (Cost \$730,416)</b>         |        |               |             | <b>689,502</b>            |

See Notes to Financial Statements.

**Western Asset Income Fund**

|  | Rate   | Maturity Date | Face Amount | Value            |
|--|--------|---------------|-------------|------------------|
| Security   |        |               |             |                  |
| <b>Municipal Bonds 1.1%</b>  |        |               |             |                  |
| <i>California 0.9%</i>   |        |               |             |                  |
| Los Angeles County, CA, Public Works Financing Authority, Lease Revenue, Build America Bonds, Recovery Zone Economic Development | 7.618% | 8/1/40        | \$ 650,000  | \$ 1,023,594     |
| University of California Revenue, Taxable  | 4.062% | 5/15/33       | 150,000     | 160,134          |
| <i>Total California</i>  |        |               |             | <i>1,183,728</i> |
| <i>Illinois 0.2%</i>   |        |               |             |                  |
| Illinois State, GO, Build America Bonds-Taxable  | 6.725% | 4/1/35        | 310,000     | 334,372          |
| <b>Total Municipal Bonds (Cost \$1,445,996)</b>  |        |               |             | <b>1,518,100</b> |
| <b>Sovereign Bonds 3.6%</b>  |        |               |             |                  |
| <i>Argentina 2.6%</i>  |        |               |             |                  |
| Provincia de Buenos Aires, Senior Notes  | 9.125% | 3/16/24       | 870,000     | 957,000 (a)      |
| Republic of Argentina, Senior Notes  | 6.250% | 4/22/19       | 490,000     | 510,825 (a)      |
| Republic of Argentina, Senior Notes  | 6.875% | 4/22/21       | 620,000     | 661,230 (a)      |
| Republic of Argentina, Senior Notes  | 7.500% | 4/22/26       | 1,350,000   | 1,459,350 (a)    |
| <i>Total Argentina</i>   |        |               |             | <i>3,588,405</i> |
| <i>Canada 0.8%</i>   |        |               |             |                  |
| Quebec Province, Notes   | 7.970% | 7/22/36       | 650,000     | 1,071,678        |
| <i>Mexico 0.0%</i>   |        |               |             |                  |
| United Mexican States, Senior Notes  | 4.750% | 3/8/44        | 30,000      | 32,325           |
| <i>Turkey 0.2%</i>   |        |               |             |                  |
| Republic of Turkey, Senior Bonds   | 4.250% | 4/14/26       | 210,000     | 213,181          |
| <b>Total Sovereign Bonds (Cost \$4,347,824)</b>  |        |               |             | <b>4,905,589</b> |
| <b>U.S. Government &amp; Agency Obligations 0.3%</b>   |        |               |             |                  |
| <i>U.S. Government Obligations 0.3%</i>  |        |               |             |                  |
| U.S. Treasury Bonds (Cost \$364,080)   | 2.500% | 2/15/46       | 370,000     | 385,277          |
|  |        |               | Shares      |                  |
| <b>Preferred Stocks 1.3%</b>   |        |               |             |                  |
| <b>Financials 1.3%</b>   |        |               |             |                  |
| <i>Consumer Finance 0.9%</i>   |        |               |             |                  |
| GMAC Capital Trust I   | 6.411% |               | 52,500      | 1,303,050 (e)    |
| <i>Diversified Financial Services 0.3%</i>   |        |               |             |                  |
| Citigroup Capital XIII   | 7.008% |               | 15,253      | 397,646 (e)      |

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

June 30, 2016

### Western Asset Income Fund

| Security   | Rate   | Shares | Value                     |
|--|--------|--------|---------------------------|
| <i>Insurance 0.1%</i>                                |        |        |                           |
| Delphi Financial Group Inc.                          | 7.376% | 5,725  | \$ 131,675 <sup>(c)</sup> |
| <b>Total Preferred Stocks (Cost \$1,777,407)</b>     |        |        | <b>1,832,371</b>          |
| <b>Total Investments 97.5% (Cost \$123,543,803#)</b> |        |        | <b>134,523,909</b>        |
| Other Assets in Excess of Liabilities 2.5%           |        |        | 3,514,164                 |
| <b>Total Net Assets 100.0%</b>                       |        |        | <b>\$ 138,038,073</b>     |

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(b) Security has no maturity date. The date shown represents the next call date.

(c) Variable rate security. Interest rate disclosed is as of the most recent information available.

# Aggregate cost for federal income tax purposes is substantially the same.

#### Abbreviation used in this schedule:

GO General Obligation

See Notes to Financial Statements.

## Statement of assets and liabilities (unaudited)

June 30, 2016

|   |                       |
|---|-----------------------|
| <b>Assets:</b>  |                       |
| Investments, at value (Cost \$123,543,803)  | \$ 134,523,909        |
| Cash  | 1,397,887             |
| Interest receivable   | 1,788,674             |
| Receivable for securities sold  | 917,257               |
| Deposits with brokers for open futures contracts  | 424,166               |
| Receivable from broker variation margin on open futures contracts                                   | 86,278                |
| Prepaid expenses  | 45,312                |
| Other assets  | 13,944                |
| <b>Total Assets</b>   | <b>139,197,427</b>    |
| <b>Liabilities:</b>   |                       |
| Payable for securities purchased  | 1,043,158             |
| Investment management fee payable   | 58,533                |
| Directors fees payable  | 4,617                 |
| Accrued expenses  | 53,046                |
| <b>Total Liabilities</b>  | <b>1,159,354</b>      |
| <b>Total Net Assets</b>   | <b>\$ 138,038,073</b> |
| <b>Net Assets:</b>  |                       |
| Par value (\$0.01 par value; 20,000,000 shares authorized, 9,462,123 shares issued and outstanding) | \$ 94,621             |
| Paid-in capital in excess of par value  | 142,837,942           |
| Undistributed net investment income   | 1,225,008             |
| Accumulated net realized loss on investments and futures contracts                                  | (16,384,413)          |
| Net unrealized appreciation on investments and futures contracts                                    | 10,264,915            |
| <b>Total Net Assets</b>   | <b>\$ 138,038,073</b> |
| <b>Shares Outstanding</b>   | <b>9,462,123</b>      |
| <b>Net Asset Value</b>  | <b>\$14.59</b>        |

See Notes to Financial Statements.

## Statement of operations (unaudited)

For the Six Months Ended June 30, 2016

|   |                      |
|---|----------------------|
| <b>Investment Income:</b>   |                      |
| Interest  | \$ 3,762,372         |
| Dividends   | 66,365               |
| <b>Total Investment Income</b>  | <b>3,828,737</b>     |
| <b>Expenses:</b>  |                      |
| Investment management fee (Note 2)  | 354,861              |
| Legal fees  | 39,231               |
| Transfer agent fees   | 28,538               |
| Franchise taxes   | 23,584               |
| Audit and tax fees  | 20,194               |
| Fund accounting fees  | 14,251               |
| Shareholder reports   | 13,100               |
| Stock exchange listing fees   | 10,586               |
| Directors' fees   | 10,422               |
| Custody fees  | 882                  |
| Miscellaneous expenses  | 4,925                |
| <b>Total Expenses</b>   | <b>520,574</b>       |
| Less: Fee waivers and/or expense reimbursements (Note 2)  | (12,000)             |
| <b>Net Expenses</b>   | <b>508,574</b>       |
| <b>Net Investment Income</b>  | <b>3,320,163</b>     |
| <b>Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):</b> |                      |
| Net Realized Gain (Loss) From:  |                      |
| Investment transactions   | 676,221              |
| Futures contracts   | (1,007,139)          |
| <b>Net Realized Loss</b>  | <b>(330,918)</b>     |
| Change in Net Unrealized Appreciation (Depreciation) From:  |                      |
| Investments   | 8,060,862            |
| Futures contracts   | (701,983)            |
| <b>Change in Net Unrealized Appreciation (Depreciation)</b>   | <b>7,358,879</b>     |
| <b>Net Gain on Investments and Futures Contracts</b>  | <b>7,027,961</b>     |
| <b>Increase in Net Assets From Operations</b>   | <b>\$ 10,348,124</b> |

See Notes to Financial Statements.

## Statements of changes in net assets

For the Six Months Ended June 30, 2016 (unaudited)  
and the Year Ended December 31, 2015

|  | 2016                  | 2015                  |
|--|-----------------------|-----------------------|
| <b>Operations:</b>   |                       |                       |
| Net investment income  | \$ 3,320,163          | \$ 6,659,539          |
| Net realized gain (loss)   | (330,918)             | 713,690               |
| Change in net unrealized appreciation (depreciation)             | 7,358,879             | (10,329,729)          |
| <i>Increase (Decrease) in Net Assets From Operations</i>         | <i>10,348,124</i>     | <i>(2,956,500)</i>    |
| <b>Distributions to Shareholders From (Note 1):</b>              |                       |                       |
| Net investment income  | (3,264,443)           | (6,528,870)           |
| <i>Decrease in Net Assets From Distributions to Shareholders</i> | <i>(3,264,443)</i>    | <i>(6,528,870)</i>    |
| <i>Increase (Decrease) in Net Assets</i>                         | <i>7,083,681</i>      | <i>(9,485,370)</i>    |
| <b>Net Assets:</b>   |                       |                       |
| Beginning of period  | 130,954,392           | 140,439,762           |
| <b>End of period*</b>  | <b>\$ 138,038,073</b> | <b>\$ 130,954,392</b> |
| *Includes undistributed net investment income of:                | \$1,225,008           | \$1,169,288           |

See Notes to Financial Statements.

## Financial highlights

| For a share of capital stock outstanding throughout each year ended December 31, unless otherwise noted: |                     |                   |                   |                   |                   |                   |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | 2016 <sup>1,2</sup> | 2015 <sup>1</sup> | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> | 2011 <sup>1</sup> |
| Net asset value, beginning of period   | \$13.84             | \$14.84           | \$14.45           | \$15.04           | \$13.76           | \$13.82           |
| <b>Income (loss) from operations:</b>  |                     |                   |                   |                   |                   |                   |
| Net investment income  | 0.35                | 0.70              | 0.73              | 0.73              | 0.73              | 0.77              |
| Net realized and unrealized gain (loss)  | 0.75                | (1.01)            | 0.35              | (0.63)            | 1.27              | (0.08)            |
| <b>Total income (loss) from operations</b>   | <b>1.10</b>         | <b>(0.31)</b>     | <b>1.08</b>       | <b>0.10</b>       | <b>2.00</b>       | <b>0.69</b>       |
| <b>Less distributions from:</b>  |                     |                   |                   |                   |                   |                   |
| Net investment income  | (0.35) <sup>3</sup> | (0.69)            | (0.69)            | (0.69)            | (0.72)            | (0.75)            |
| <b>Total distributions</b>   | <b>(0.35)</b>       | <b>(0.69)</b>     | <b>(0.69)</b>     | <b>(0.69)</b>     | <b>(0.72)</b>     | <b>(0.75)</b>     |
| Net asset value, end of period   | \$14.59             | \$13.84           | \$14.84           | \$14.45           | \$15.04           | \$13.76           |
| Market price, end of period  | \$14.18             | \$13.02           | \$13.45           | \$13.17           | \$14.82           | \$13.81           |
| <b>Total return, based on NAV<sup>4,5</sup></b>  | <b>8.06%</b>        | <b>(2.21)%</b>    | <b>7.57%</b>      | <b>0.73%</b>      | <b>14.84%</b>     | <b>5.04%</b>      |
| <b>Total return, based on Market Price<sup>6</sup></b>   | <b>11.74%</b>       | <b>1.88%</b>      | <b>7.44%</b>      | <b>(6.47)%</b>    | <b>12.76%</b>     | <b>13.32%</b>     |
| Net assets, end of period (000s)   | \$138,038           | \$130,954         | \$140,440         | \$136,683         | \$142,322         | \$129,895         |
| <b>Ratios to average net assets:</b>   |                     |                   |                   |                   |                   |                   |
| Gross expenses   | 0.79% <sup>7</sup>  | 0.76%             | 0.73%             | 0.75%             | 0.72%             | 0.76%             |
| Net expenses <sup>8</sup>  | 0.77 <sup>7</sup>   | 0.74              | 0.71              | 0.73              | 0.70              | 0.74              |
| Net investment income  | 5.04 <sup>7</sup>   | 4.82              | 4.87              | 5.02              | 5.06              | 5.55              |
| <b>Portfolio turnover rate</b>   | <b>24%</b>          | <b>42%</b>        | <b>38%</b>        | <b>70%</b>        | <b>90%</b>        | <b>56%</b>        |

<sup>1</sup> Per share amounts have been calculated using the average shares method.

<sup>2</sup> For the six months ended June 30, 2016 (unaudited).

<sup>3</sup> The actual source of the Fund's current fiscal year distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year.

<sup>4</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>5</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>6</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>7</sup> Annualized.

<sup>8</sup> Reflects fee waivers and/or expense reimbursements.

Edgar Filing: Western Asset Income Fund - Form N-CSRS

See Notes to Financial Statements.



## Notes to financial statements (unaudited)

### 1. Organization and significant accounting policies

Western Asset Income Fund (the Fund) is registered under the Investment Company Act of 1940, as amended (1940 Act), as a closed-end diversified investment company.

The Fund seeks a high level of current income, consistent with prudent investment risk. Capital appreciation is a secondary investment objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies

## Notes to financial statements (unaudited) (cont d)

adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

## Edgar Filing: Western Asset Income Fund - Form N-CSRS

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets and liabilities carried at fair value:

| ASSETS                               |                            |   |  |                       |
|--------------------------------------|----------------------------|---|--|-----------------------|
| Description                          | Quoted Prices<br>(Level 1) | Other Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                 |
| Long-term investments :              |                            |   |  |                       |
| Corporate bonds & notes:             |                            |   |  |                       |
| Industrials                          |                            | \$ 6,865,051  | \$ 101,890   | \$ 6,966,941          |
| Other corporate bonds & notes        |                            | 118,226,129   |  | 118,226,129           |
| Asset-backed securities              |                            | 689,502   |  | 689,502               |
| Municipal bonds                      |                            | 1,518,100   |  | 1,518,100             |
| Sovereign bonds                      |                            | 4,905,589   |  | 4,905,589             |
| U.S. government & agency obligations |                            | 385,277   |  | 385,277               |
| Preferred stocks                     | \$ 1,832,371               |   |  | 1,832,371             |
| <b>Total investments</b>             | <b>\$ 1,832,371</b>        | <b>\$ 132,589,648</b>                               | <b>\$ 101,890</b>                                  | <b>\$ 134,523,909</b> |
| Other financial instruments:         |                            |   |  |                       |
| Futures contracts                    | \$ 391,879                 |   |  | \$ 391,879            |
| <b>Total</b>                         | <b>\$ 2,224,250</b>        | <b>\$ 132,589,648</b>                               | <b>\$ 101,890</b>                                  | <b>\$ 134,915,788</b> |
| LIABILITIES                          |                            |   |  |                       |
| Description                          | Quoted Prices<br>(Level 1) | Other Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                 |
| Other financial instruments:         |                            |   |  |                       |
| Futures contracts                    | \$ 1,107,070               |   |  | \$ 1,107,070          |

See Schedule of Investments for additional detailed categorizations.

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if

## Notes to financial statements (unaudited) (cont d)

the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(d) Credit and market risk.** The Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

Investments in securities that are collateralized by real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

**(e) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Paydown gains and losses on mortgage and asset-backed securities are recorded as adjustments to interest income. Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(f) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. The actual source of the Fund's monthly distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year. Distributions of net realized gains, if any, are declared at least annually. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(g) Compensating balance arrangements.** The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

**(h) Federal and other taxes.** It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of December 31, 2015, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

**(i) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share.

## **2. Investment management agreement and other transactions with affiliates**

The Fund has entered into an Investment Advisory Agreement with Western Asset Management Company (Adviser), which is a wholly owned subsidiary of Legg Mason, Inc., pursuant to which the Adviser provides investment advice and administrative services to the Fund. In return for its services, the Fund pays the Adviser a monthly fee at an annual rate of 0.70% of the average monthly net assets of the Fund up to \$60,000,000 and 0.40% of such net assets in excess of \$60,000,000. If expenses (including the Adviser's fee but excluding interest, taxes, brokerage fees, the expenses of any offering by the Fund of its securities, and extraordinary expenses beyond the control of the Fund) borne by the Fund in any fiscal year exceed 1.5% of average net assets up to \$30,000,000 and 1% of average net assets over \$30,000,000, the Adviser has contractually agreed to reimburse the Fund for any excess.

## Notes to financial statements (unaudited) (cont d)

During the six months ended June 30, 2016, fees waived and/or expenses reimbursed amounted to \$12,000.

Western Asset Management Company Limited ( WAML ) provides the Fund with investment research, advice, management and supervision and a continuous investment program for the Fund's portfolio of non-dollar securities consistent with the Fund's investment objectives and policies. As compensation, the Adviser pays WAML a fee based on the pro rata assets of the Fund managed by WAML during the month.

Under the terms of an administrative services agreement among the Fund, the Adviser, and Legg Mason Partners Fund Advisor, LLC ( LMPFA ), the Adviser (not the Fund) pays LMPFA a monthly fee of \$3,000 (an annual rate of \$36,000). LMPFA and WAML are wholly-owned subsidiaries of Legg Mason, Inc.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

### 3. Investments

During the six months ended June 30, 2016, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

|           | Investments   | U.S. Government &<br>Agency Obligations |
|-----------|---------------|---|
| Purchases | \$ 23,664,734 | \$ 8,235,353                            |
| Sales     | 25,151,671    | 8,395,005                               |

At June 30, 2016, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Gross unrealized appreciation      | \$ 12,841,325        |
| Gross unrealized depreciation      | (1,861,219)          |
| <b>Net unrealized appreciation</b> | <b>\$ 10,980,106</b> |

At June 30, 2016, the Fund had the following open futures contracts:

|  | Number of<br>Contracts | Expiration<br>Date | Basis<br>Value | Market<br>Value | Unrealized<br>Appreciation<br>(Depreciation) |
|--|------------------------|--------------------|----------------|-----------------|--|
| <b>Contracts to Buy:</b>                                     |                        |                    |                |                 |  |
| U.S. Treasury 2-Year Notes                                   | 20                     | 9/16               | \$ 4,356,596   | \$ 4,386,562    | \$ 29,966                                    |
| U.S. Treasury 5-Year Notes                                   | 144                    | 9/16               | 17,288,152     | 17,591,625      | 303,473                                      |
| U.S. Treasury Ultra Long-Term Bonds                          | 5                      | 9/16               | 873,435        | 931,875         | 58,440                                       |
|  |                        |                    |                |                 | <b>391,879</b>                               |
| <b>Contracts to Sell:</b>                                    |                        |                    |                |                 |  |
| U.S. Treasury 10-Year Notes                                  | 9                      | 9/16               | 1,192,705      | 1,196,859       | (4,154)                                      |
| U.S. Treasury Long-Term Bonds                                | 116                    | 9/16               | 18,888,959     | 19,991,875      | (1,102,916)                                  |
|  |                        |                    |                |                 | (1,107,070)                                  |
| <b>Net unrealized depreciation on open futures contracts</b> |                        |                    |                |                 | <b>\$ (715,191)</b>                          |

**4. Derivative instruments and hedging activities**

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at June 30, 2016.

| <b>ASSET DERIVATIVES<sup>1</sup></b> |  | Interest<br>Rate Risk |
|--------------------------------------|--|-----------------------|
| Futures contracts <sup>2</sup>       |  | \$ 391,879            |

| <b>LIABILITY DERIVATIVES<sup>1</sup></b> |  | Interest<br>Rate Risk |
|--|--|-----------------------|
| Futures contracts <sup>2</sup>           |  | \$ 1,107,070          |

<sup>1</sup> Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

<sup>2</sup> Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the six months ended June 30, 2016. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

| <b>AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED</b> |  | Interest<br>Rate Risk |
|---|--|-----------------------|
| Futures contracts   |  | \$ (1,007,139)        |

| <b>CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED</b> |  | Interest<br>Rate Risk |
|---|--|-----------------------|
| Futures contracts   |  | \$ (701,983)          |

During the six months ended June 30, 2016, the volume of derivative activity for the Fund was as follows:

|                             | Average Market<br>Value |
|-----------------------------|-------------------------|
| Futures contracts (to buy)  | \$ 16,492,938           |
| Futures contracts (to sell) | 20,926,259              |

The following table presents by financial instrument, the Fund's derivative assets net of the related collateral received by the Fund at June 30, 2016:

|                                | Gross Amount of Derivative<br>Assets in the Statement of<br>Assets and Liabilities <sup>1</sup> | Collateral<br>Received | Net<br>Amount |
|--------------------------------|---|------------------------|---------------|
| Futures contracts <sup>2</sup> | \$ 86,278   |                        | \$ 86,278     |





## Notes to financial statements (unaudited) (cont d)

<sup>1</sup> Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

<sup>2</sup> Amount represents the current day's variation margin as reported in the Statement of Assets and Liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

### 5. Distributions subsequent to June 30, 2016

The following distributions have been declared by the Fund's Board of Directors and are payable subsequent to the period end of this report:

| Record Date | Payable Date | Amount    |
|-------------|--------------|-----------|
| 7/22/2016   | 7/29/2016    | \$ 0.0575 |
| 8/19/2016   | 8/26/2016    | \$ 0.0575 |
| 9/23/2016   | 9/30/2016    | \$ 0.0575 |

### 6. Stock repurchase program

On November 20, 2015, the Fund announced that the Fund's Board of Directors (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the six months ended June 30, 2016, the Fund did not repurchase any shares.

### 7. Capital loss carryforward

As of December 31, 2015, the Fund had the following net capital loss carryforward remaining:

| Year of Expiration | Amount          |
|--------------------|-----------------|
| 12/31/2016         | \$ (676,492)    |
| 12/31/2017         | (10,616,218)    |
| 12/31/2018         | (227,490)       |
|                    | \$ (11,520,200) |

These amounts will be available to offset any future taxable capital gains, except that under applicable tax rules, deferred capital losses of \$4,424,656, which have no expiration date, must be used first to offset any such gains.

## Additional shareholder information (unaudited)

### Results of annual meeting of shareholders

The Fund's annual meeting of shareholders was held on May 17, 2016. Of the 9,462,123 common shares outstanding, the following shares were voted in the meeting:

| Election of Directors: | For       | Withheld |
|------------------------|-----------|----------|
| Robert Abeles, Jr.     | 8,284,323 | 128,382  |
| Anita L. DeFrantz      | 8,237,353 | 175,352  |
| Ronald L. Olson        | 8,273,854 | 138,851  |
| Avedick B. Poladian    | 8,295,459 | 117,246  |
| William E. B. Siart    | 8,237,883 | 174,822  |
| Jaynie M. Studenmund   | 8,295,952 | 116,753  |
| Jane Trust             | 8,290,414 | 122,291  |

Western Asset Income Fund

29

---

## Dividend reinvestment plan (unaudited)

The Fund offers to all shareholders a Dividend Reinvestment Plan ( Plan ). For participants in the Plan, cash distributions (e.g., dividends and capital gains) of registered shareholders (those who own shares in their own name on the Fund's records) are automatically invested in shares of the Fund. Interested shareholders may obtain more information or sign up for the Plan by contacting the agent. Shareholders who own shares in a brokerage, bank, or other financial institution account must contact the Company where their account is held in order to participate in the Plan.

If you elect to participate in the Plan you will automatically receive your dividend or net capital gains distribution in newly issued shares of the Fund if the market price of a share on the date of the distribution is at or above the net asset value ( NAV ) of a Fund share. The number of shares to be issued to you will be determined by dividing the amount of the cash distribution to which you are entitled (net of any applicable withholding taxes) by the greater of the NAV per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the NAV the Agent will, as agent for the participants, buy shares of the Fund's stock through a broker on the open market or in a negotiated transaction (subject to price and other terms to which the agent may agree). The price per share of shares purchased for each participant's account with respect to a particular dividend or other distribution will be the average price (including brokerage commissions, transfer taxes and any other costs of purchase) of all shares purchased with respect to that dividend or other distribution. All shares of common stock acquired on your behalf through the Plan will be automatically credited to an account maintained on the books of the Agent. Full and fractional shares will be voted by the Agent in accordance with your instructions.

### Additional information regarding the plan

The Fund will pay all costs applicable to the Plan, with the exceptions noted below. Brokerage commissions, transfer taxes and any other costs of purchase or sale by the Agent under the Plan will be charged to participants. The commission participants pay for selling shares under the Plan is calculated as \$2.50 plus \$0.15 per share. Beneficial shareholders should contact the company holding their account for further information concerning fees that may apply to selling shares under the Plan. In the event the Fund determines to no longer pay the costs applicable to the Plan, the Agent will terminate the Plan and may, but is not obligated to, offer a new plan under which it would impose a direct service charge on participants.

All shares acquired through the Plan receive voting rights and are eligible for any stock split, stock dividend, or other rights accruing to shareholders that the Board of Directors may declare. Distributions to Plan participants will be in the form of stock, unless the Agent is notified in writing 10 days prior to the record date fixed by the Board of Directors for the distribution that you wish to receive a cash payment. Beneficial shareholders should contact the company holding their account for further information regarding deadlines that might apply.

You may terminate participation in the Plan at any time by giving written notice to the Agent. Such termination will be effective prior to the record date next succeeding the receipt of such instructions or by a later date of termination specified in such instructions.

Upon termination of the Plan, a participant may request a certificate for the full shares credited to his or her account or may request the sale of all or part of such shares. If the participant instructs the Agent to sell the shares credited to the participant's account, the Agent may accumulate such shares and those of any other terminating participants for purposes of such sale. Brokerage charges, transfer taxes, and any other costs of sale will be allocated pro rata among the selling participants. Any such sale may be made on any securities exchange where such shares are traded, in the over-the counter market or in negotiated transactions, and may be subject to such terms of price, delivery, etc., as the Agent may agree to. Fractional shares credited to a terminating account will be paid for in cash at the current market price at the time of termination.

Dividends and other distributions invested in additional shares under the Plan are subject to income tax just as if they had been received in cash. After year end, dividends paid on the accumulated shares will be included in the Form 1099-DIV information return to the Internal Revenue Service and only one Form 1099-DIV will be sent to each participant each year.

Registered shareholders can make inquiries regarding the Plan, as well as sign up or terminate their participation in the Plan by contacting Computershare Inc., 211 Quality Circle, Suite 210, College Station, TX 77845-4470, telephone number 1-888-888-0151. Beneficial Shareholders can make inquiries regarding the Plan as well as sign up or terminate their participation in the Plan by contacting the company where their account is held.

## Western Asset

### Income Fund

#### **Directors**

Robert Abeles, Jr

Anita L. DeFrantz

Ronald L. Olson

Avedick B. Poladian

William E. B. Siart

*Chairman*

Jaynie M. Studenmund

Jane Trust

#### **Officers**

Jane Trust

*President and Chief Executive Officer*

Richard F. Sennett

*Principal Financial Officer and Treasurer*

Todd F. Kuehl

*Chief Compliance Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Jenna Bailey

*Identify Theft Prevention Officer*

#### **Western Asset Income Fund**

620 Eighth Avenue

49<sup>th</sup> Floor

New York, NY 10018

#### **Investment advisers**

## Edgar Filing: Western Asset Income Fund - Form N-CSRS

Western Asset Management Company

Western Asset Management Company Limited

### **Custodian**

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

### **Independent registered public accounting firm**

PricewaterhouseCoopers LLP

100 East Pratt Street

Baltimore, MD 21202

### **Legal counsel**

Ropes & Gray LLP

1211 Avenue of the Americas

New York, NY 10036

### **Transfer agent**

Computershare Inc.\*

211 Quality Circle, Suite 210

College Station, TX 77845-4470

### **New York Stock Exchange Symbol**

PAI

\* Effective March 14, 2016, Computershare Inc. serves as the Fund's transfer agent.

## Legg Mason Funds Privacy and Security Notice

### Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the **Privacy Notice**) addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

### The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

Personal information included on applications or other forms;

Account balances, transactions, and mutual fund holdings and positions;

Online account access user IDs, passwords, security challenge question responses; and

Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

### How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

Employees, agents, and affiliates on a **need to know** basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;

Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

The Funds' representatives such as legal counsel, accountants and auditors; and

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.





## Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

### Keeping You Informed of the Funds' Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

### The Funds' Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your non-public personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at [www.leggmason.com](http://www.leggmason.com), or contact the Fund at 1-888-777-0102.

**NOT PART OF THE SEMI-ANNUAL REPORT**

Western Asset Income Fund

Western Asset Income Fund

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase, at market prices, shares of its stock.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) at [www.lmcef.com](http://www.lmcef.com) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of Western Asset Income Fund for their information. This is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or any securities mentioned in this report.

Computershare Inc.

211 Quality Circle, Suite 210

College Station, TX 77845-4470

**WASX012841 8/16 SR16-2851**

ITEM 2. CODE OF ETHICS.

Not Applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not Applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not Applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not Applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END  
MANAGEMENT INVESTMENT COMPANIES.

Not Applicable.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not Applicable.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT  
COMPANY AND AFFILIATED PURCHASERS.

Not Applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM 11. CONTROLS AND PROCEDURES.

Edgar Filing: Western Asset Income Fund - Form N-CSRS

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Not Applicable.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxle Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

**Western Asset Income Fund**

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: August 22, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: August 22, 2016

By: /s/ Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer

Date: August 22, 2016