WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form N-14 8C/A
March 08, 2016

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As filed with the Securities and Exchange Commission on March 8, 2016

Securities Act File No. 333-208957

Investment Company Act File No. 811-07920

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-14

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

x **Pre-Effective Amendment No. 1** ¨ **Post-Effective Amendment No.**

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

(Exact Name of Registrant as Specified in Charter)

620 Eighth Avenue

New York, New York 10018

(Address of Principal Executive Offices: Number, Street, City, State, Zip Code)

1-888-777-0102

(Area Code and Telephone Number)

Jane E. Trust

Legg Mason & Co., LLC

100 International Drive

Baltimore, MD 21202

(Name and Address of Agent for Services)

with copies to:

Sarah E. Cogan, Esq.

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, New York 10017

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, Connecticut 06902

Calculation of Registration Fee under the Securities Act of 1933:

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock ($.001 par value)	45,553,786	$5.15	$234,602,000	$23,624.42

(1) Estimated solely for the purpose of calculating the registration fee.

(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.

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WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

, 2016

Dear Stockholder:

A Joint Special Meeting of Stockholders (the Meeting) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO and together with MHY, the Funds) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, April 29, 2016 at 10:00 a.m., Eastern Time, for the purposes of considering and voting on a proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger). The attached Proxy Statement/Prospectus asks for your approval of the proposed Merger. **After careful consideration, the Board of each Fund recommends that you vote FOR the proposed Merger.**

As a result of the Merger, each share of common stock of MHY would convert into an equivalent dollar amount (to the nearest $0.001) of full shares of common stock of HIO, based on the net asset value of each Fund on the date preceding the Merger. HIO will not issue fractional shares to MHY stockholders. In lieu of issuing fractional shares, HIO will pay cash to each former holder of MHY common stock in an amount equal to the value of the fractional shares of HIO common stock that the investor would otherwise have received in the Merger. The currently issued and outstanding common stock of HIO will remain issued and outstanding.

Both MHY and HIO are closed-end, diversified management investment companies listed on the New York Stock Exchange. MHY s primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation. A more detailed comparison of the Funds investment objectives and policies appears in the attached Proxy Statement/Prospectus. The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

Your vote is very important to us regardless of the number of shares you own. Whether or not you plan to attend the Meeting in person, please read the Proxy Statement/Prospectus and cast your vote promptly. To vote, simply date, sign and return the proxy card in the enclosed postage-paid envelope or follow the instructions on the proxy card for voting by touch-tone telephone or on the Internet.

If you have any questions about the proposal to be voted on, please call Georgeson Inc. at 1-800-891-3214.

It is important that your vote be received no later than the time of the Meeting.

Sincerely,

Jane E. Trust

President and Chief Executive Officer

Western Asset Managed High Income Fund Inc.

Western Asset High Income Opportunity Fund Inc.

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WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

IMPORTANT NEWS FOR STOCKHOLDERS

The enclosed combined Proxy Statement/Prospectus describes a proposal to merge Western Asset Managed High Income Fund Inc. (MHY) with and into Western Asset High Income Opportunity Fund Inc. (HIO, and together with MHY, the Funds) in accordance with the Maryland General Corporation Law (the Merger).

While we encourage you to read the full text of the enclosed combined Proxy Statement/Prospectus, here is a brief overview of the proposed Merger. Please refer to the more complete information contained elsewhere in the combined Proxy Statement/Prospectus about the Merger.

COMMON QUESTIONS ABOUT THE PROPOSED MERGER

Q. Why am I receiving the Proxy Statement/Prospectus?

A. As a stockholder of either MHY or HIO, you are being asked to vote in favor of a proposal to merge MHY with and into HIO in accordance with the Maryland General Corporation Law.

Q. How will the Merger affect me?

A. If the Merger is approved, MHY will be merged with and into HIO in accordance with the Maryland General Corporation Law. MHY s assets and liabilities will be combined with the assets and liabilities of HIO, and stockholders of MHY will become stockholders of HIO.

As a result of the Merger, each share of common stock of MHY would convert into an equivalent dollar amount (to the nearest $0.001) of full shares of common stock of HIO, based on the net asset value of each Fund on the date preceding the merger. HIO will not issue fractional shares to MHY stockholders. In lieu of issuing fractional shares, HIO will pay cash to each former MHY stockholder in an amount equal to the value of the fractional shares of HIO common stock that the investor would otherwise have received in the merger. The currently issued and outstanding shares of HIO common stock will remain issued and outstanding. Stockholders of HIO will be stockholders in a larger fund.

Upon the consummation of the Merger, all shares of MHY common stock shall cease to be outstanding, shall automatically be cancelled and shall cease to exist and the holders of certificates or book entry shares which, immediately prior to the effective date of the Merger, represented such shares of the MHY common stock shall cease to have any rights with respect thereto, except the right to receive the consideration described above.

Q. Why is the Merger being recommended?

A. The Board of Directors of each Fund believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

At a meeting held on November 11 and 12, 2015, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

Q. Are HIO s investment objectives and policies similar to those of MHY?

A. MHY and HIO have near identical investment objectives and substantially similar policies and strategies.

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MHY s primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights. In addition, MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.

In seeking to fulfill its investment objectives, HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights. HIO does not use leverage for investment purposes. In addition, HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars. Furthermore, HIO may invest up to 15% of its assets in illiquid securities.

The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

Please see Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds investment objectives, policies and a summary of the principal risks of investing in the Funds.

Q. How will the Merger affect fees and expenses?

A. Legg Mason Partners Fund Adviser, LLC (LMPFA) provides administrative and certain oversight services to MHY. MHY pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of MHY s average daily net assets. Similarly, HIO currently pays LMPFA, which is also HIO s investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets.

Although HIO s investment management fee is identical to MHY s, MHY also pays 0.13% in other expenses based on its average daily net assets, whereas HIO only pays 0.09% in other expenses based on its average daily net assets. It is anticipated that MHY s shareholders total expense ratio will decline by 0.05% and HIO s shareholders total expense ratio will decline by 0.01% as a result of the Merger.

Q. What are the Funds capital loss carryovers?

A. As of their most recent fiscal year ends, the Funds are entitled to capital loss carryovers for federal income tax purposes in the amounts set forth below:

	MHY (as of February 28, 2015)		HIO (as of September 30, 2015)	
	Amount of Carryforward	**Fiscal Year of Expiration Prior to Merger**	**Amount of Carryforward**	**Fiscal Year of Expiration Prior to Merger**
	$ (3,750,476)	No Expiration[1]	$ (24,092,664)	No Expiration[1]
	(6,640,949)	2/28/2017	(2,157,094)	9/30/2016
	(35,714,593)	2/28/2018	(17,968,287)	9/30/2017
	(5,212,866)	2/28/2019	(49,024,877)	9/30/2018
			(11,684,123)	9/30/2019
Total	$ (51,318,884)		$ (104,927,045)	

(1)

Both Funds are permitted to carry forward these capital losses for an unlimited period. However, these losses will be required to be utilized prior to their other capital losses with the expiration dates listed above. As a result of this ordering rule, the other capital losses may be more likely to expire unutilized. Additionally, these capital losses retain their character as either short-term or long-term capital losses rather than being considered all short-term as are the Funds other capital losses listed above.

Q. Will I have to pay any taxes as a result of the Merger?

A. The Merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Assuming the Merger qualifies for such treatment, you generally will not recognize a

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gain or loss for federal income tax purposes as a result of the Merger. MHY stockholders may, however, recognize gain or loss with respect to any cash those stockholders receive pursuant to the Merger in lieu of fractional shares. As a condition to the closing of the Merger, MHY and HIO will each receive an opinion of counsel to the effect that the Merger will qualify for such treatment. Opinions of counsel are not binding on the Internal Revenue Service or the courts. You should talk to your tax advisor about any state, local and other tax consequences of the Merger. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences.

Q. Who will pay for the Merger?

A. The costs of Merger, including the costs of preparing, printing, assembling and mailing material in connection with this solicitation of proxies are estimated to be approximately $212,100 for MHY and approximately $262,500 for HIO. LMPFA, or an affiliate thereof, will bear 50% of each Fund s Merger costs whether or not the Merger is consummated.

Q. How does the Board of each Fund recommend that I vote on the Merger?

A. After careful consideration, MHY s Board of Directors, including all of the Independent Directors, and HIO s Board of Directors, including all of the Independent Directors, unanimously recommend that you vote FOR the Merger.

Q. What will happen if the Merger is not approved?

A. If the Merger is not approved, MHY and HIO will continue as separate investment companies, and each Board will consider such alternatives as it determines to be in the best interests of such Fund s stockholders, including reproposing the Merger.

Q. When is the Merger expected to happen?

A. If each Fund s stockholders approve the Merger, the Merger is expected to occur on or about May 20, 2016.

Q. Will my vote make a difference?

A. Your vote is very important and can make a difference in the governance of each Fund, no matter how many shares you own. Your vote can help ensure that the proposal recommended by the Board of Directors of each Fund can be implemented. We encourage all stockholders to participate in the governance of each Fund.

Q. Whom do I call if I have questions?

A. If you need more information, or have any questions about voting, please call Georgeson Inc., the proxy solicitor, at 1-800-891-3214.

Q. How do I vote my shares?

A. You can provide voting instructions by telephone by calling the toll-free number on the enclosed proxy card or electronically by going to the Internet address provided on the proxy card and following the instructions, using your proxy card as a guide. Alternatively, you can vote your shares by signing and dating the enclosed proxy card and mailing it in the enclosed postage-paid envelope.

A stockholder may revoke a proxy at any time on or before the Meeting by (1) submitting to the applicable Fund a subsequently dated proxy, (2) delivering to the applicable Fund a written notice of revocation (addressed to the Secretary at the principal executive office of the Funds at the address shown at the beginning of this Proxy Statement/Prospectus) or (3) otherwise giving notice of revocation at the Meeting, at all times prior to the exercise of the authority granted in the proxy card. Merely attending the Meeting, however, will not revoke any previously executed proxy. Unless revoked, all valid and executed proxies will be voted in accordance with the specifications thereon or, in the absence of such specifications, for approval of the proposed Merger.

You may also attend the Meeting and vote in person. However, even if you intend to attend the Meeting, we encourage you to provide voting instructions by one of the methods described above.

It is important that you vote promptly.

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WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

NOTICE OF A JOINT SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders:

A Joint Special Meeting of Stockholders (the Meeting) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO, and together with MHY, the Funds) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, April 29, 2016 at 10:00 a.m., Eastern Time, to consider and vote on a proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger).

The Board of each Fund recommends that you vote FOR the Merger upon which you are being asked to vote.

Stockholders of record at the close of business on February 1, 2016 are entitled to vote at the Meeting and at any adjournments or postponements thereof.

By order of the Board of Directors,

Robert I. Frenkel

Secretary

Western Asset Managed High Income Fund Inc.

Western Asset High Income Opportunity Fund Inc.

, 2016

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INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to MHY involved in validating your vote if you fail to sign your proxy card properly.

1. *Individual Accounts:* Sign your name exactly as it appears in the registration on the proxy card.

2. *Joint Accounts:* Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.

3. *All Other Accounts:* The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

Registration	**Valid Signature**
Corporate Accounts	
(1) ABC Corp.	ABC Corp. (by John Doe, Treasurer)
(2) ABC Corp.	John Doe, Treasurer
(3) ABC Corp., c/o John Doe, Treasurer	John Doe
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee
Trust Accounts	
(1) ABC Trust	Jane B. Doe, Trustee
(2) Jane B. Doe, Trustee, u/t/d 12/28/78	Jane B. Doe
Custodial or Estate Accounts	
(1) John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA	John B. Smith
(2) John B. Smith	John B. Smith, Jr., Executor

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The information contained in this Proxy Statement/Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Proxy Statement/Prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 8, 2016

PROXY STATEMENT/PROSPECTUS

, 2016

PROXY STATEMENT FOR:

WESTERN ASSET MANAGED HIGH INCOME FUND INC.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

888-777-0102

PROSPECTUS FOR:

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

888-777-0102

This combined Proxy Statement and Prospectus (the Proxy Statement/Prospectus) is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Western Asset Managed High Income Fund Inc. (MHY) and Western Asset High Income Opportunity Fund Inc. (HIO, and together with MHY, the Funds) for a Joint Special Meeting of Stockholders (the Meeting) for each Fund. The Meeting will be held Friday, April 29, 2016 at 620 Eighth Avenue, 49th Floor, New York, New York at 10:00 a.m., Eastern Time. At the Meeting, stockholders of MHY and HIO will be asked to consider and act upon a proposal to approve the merger of MHY with and into HIO in accordance with the Maryland General Corporation Law (the Merger).

If the Merger is approved, each share of common stock, par value $0.001 per share, of MHY (the MHY Common Shares) would convert into an equivalent dollar amount (to the nearest $0.001) of full shares of common stock, par value $0.001 per share, of HIO (the HIO Common Shares), based on the net asset value of each Fund on the date preceding the Merger. HIO will not issue fractional HIO Common Shares to holders of MHY Common Shares. In lieu of issuing fractional shares, HIO will pay cash to each former holder of MHY Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger. Although the HIO Common Shares received in the Merger will have the same total net asset value as the MHY Common Shares held immediately before the Merger (disregarding fractional shares), their stock price on the New York Stock Exchange (NYSE) may be greater or less than that of the MHY Common Shares, based on current market prices persisting at the time of the Merger. All HIO Common Shares currently issued and outstanding will remain issued and outstanding following the Merger.

The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

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At a meeting held on November 11 and 12, 2015, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the 1940 Act) (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

MHY was incorporated in Maryland on December 24, 1992; HIO was incorporated in Maryland on July 30, 1993. Both MHY and HIO are closed-end, diversified management investment companies listed on the NYSE.

MHY s primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation. The current investment policies of HIO, which differ from those of MHY, will continue unchanged if the Merger occurs. Please see Proposal 1 Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds investment objectives and policies.

The Merger will be effected pursuant to an Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A. The material terms and conditions of the Agreement and Plan of Merger are summarized in this Proxy Statement/Prospectus. See Proposal 1 Information About the Proposed Merger-The Agreement and Plan of Merger.

This Proxy Statement/Prospectus serves as a prospectus for HIO Common Shares under the Securities Act of 1933, as amended (the Securities Act), in connection with the issuance of HIO Common Shares in the Merger.

Assuming the holders of MHY Common Shares approve the Merger and all other conditions to the consummation of the Merger are satisfied or waived, the Funds will jointly file articles of merger (the Articles of Merger) with the State Department of Assessments and Taxation of Maryland (the SDAT). The Merger will become effective when the SDAT accepts for record the Articles of Merger or at such later time, which may not exceed 30 days after the Articles of Merger are accepted for record, as specified in the Articles of Merger. The date when the Articles of Merger are accepted for record, or the later date, is referred to in this Proxy Statement/Prospectus as the Closing Date. MHY, as soon as practicable after the Closing Date, will withdraw its registration under the 1940 Act.

The Merger is being structured as a tax-free reorganization for federal income tax purposes. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences. Stockholders should consult their tax advisors to determine the actual impact of the Merger on them in light of their individual tax circumstances.

You should retain this Proxy Statement/Prospectus for future reference as it sets forth concisely information about MHY and HIO that you should know before voting on the proposed Merger described below.

A Statement of Additional Information (SAI) dated , 2016, which contains additional information about the Merger and the Funds, has been filed with the Securities and Exchange Commission (SEC). The SAI, as well as MHY s Annual Report to Stockholders for the Fiscal Year Ended February 28, 2015, filed with the SEC on April 17, 2015 (accession no. 0001193125-15-135519), MHY s Semi-Annual Report to Stockholders for the Six-Month Period Ended August 31, 2015, filed on October 22, 2015 (accession no. 0001193125-15-350115) and HIO s Annual Report to Stockholders for the Fiscal Year Ended September 30, 2015, filed with the SEC on November 24, 2015 (accession no. 0001193125-15-386792), and, which highlight certain important information such as investment performance and expense and financial information, are incorporated by reference into this Proxy Statement/Prospectus. In addition, stockholder reports, proxy materials and other information concerning HIO (File No. 811-07920) and MHY (File No. 811-07396) can be inspected at the NYSE. You may receive free of charge a copy of the SAI, or the annual report and semi-annual report for either Fund, by contacting MHY and HIO at 888-777-0102, by writing either Fund at the address listed above or by visiting our website at www.lmcef.com.

In addition, you can copy and review this Proxy Statement/Prospectus and the complete filing on Form N-14 containing the Proxy Statement/Prospectus (File No. 333-208957) and any of the above-referenced documents at the SEC s Public Reference Room in Washington, DC. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090. Reports and other information about each Fund are available on the EDGAR Database on the SEC s Internet site at *www.sec.gov.* You may also obtain copies of this information, after paying a duplicating fee, by

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electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

MHY Common Shares are listed on the NYSE under the symbol MHY, and HIO Common Shares are listed on the NYSE under the symbol HIO. After the Closing Date, HIO Common Shares will continue to be listed on the NYSE under the symbol HIO.

The information contained herein concerning MHY and HIO has been provided by, and is included herein in reliance upon, MHY and HIO, respectively.

The Securities and Exchange Commission has not approved or disapproved these securities nor passed upon the accuracy or adequacy of this Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.

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PROPOSAL 1 TO APPROVE THE MERGER OF MHY WITH AND INTO HIO IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW

Summary

This summary is qualified in its entirety by reference to the additional information contained elsewhere in this Proxy Statement/Prospectus and the Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A.

Proposed Merger

The Board believes that the Merger is in the best interests of both MHY stockholders and HIO stockholders. MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies, which will allow MHY stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the combined Fund will likely benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity and additional opportunities for diversification. Furthermore, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

At a meeting held on November 11 and 12, 2015, the Boards of MHY and HIO, including all of the Independent Directors, unanimously approved the Agreement and Plan of Merger with respect to each Fund. As a result of the Merger:

- each MHY Common Share will convert into an equivalent dollar amount (to the nearest $0.001) of full HIO Common Shares, based on the net asset value per share of each Fund calculated at 4:00 p.m. on the business day preceding the Closing Date;

- each holder of MHY Common Shares will become a holder of HIO Common Shares and will receive, on the Closing Date, that number of HIO Common Shares having an aggregate net asset value (disregarding fractional shares) equal to the aggregate net asset value of such stockholder s MHY Common Shares as of the close of business on the business day preceding the Closing Date; and

- HIO will not issue any fractional HIO Common Shares to MHY stockholders. In lieu thereof, HIO will pay cash to each former holder of MHY Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger.

If the Merger is not approved, each Fund will continue as a separate investment company, and the Boards of MHY and HIO will consider such alternatives as they determine to be in the best interests of their respective stockholders, including reproposing the Merger.

For the reasons set forth below in Information About the Proposed Merger-Reasons for the Merger and Board Considerations, the Boards of MHY and HIO, including all of the Independent Directors, have concluded that the Merger would be in the best interests of each Fund, and that the interests of the holders of MHY Common Shares and HIO Common Shares would not be diluted as a result of the Merger. **The Board of each Fund, therefore, is hereby submitting the Merger to the holders of MHY Common Shares and HIO Common Shares and recommends that stockholders of MHY and HIO vote FOR the Merger.**

Because the Merger has been approved by at least 75% of MHY s Continuing Directors as that term is defined in MHY s charter, approval of the Merger requires the affirmative vote of the holders of a majority of the outstanding MHY Common Shares. Similarly, because the Merger has been approved by at least 75% of HIO s Continuing Directors (as that term is defined in HIO s Bylaws) approval of the Merger requires the affirmative vote of the holders of a majority of the outstanding HIO Common Shares. See Voting Information below. If stockholders of each Fund approve the Merger, the Closing Date of the Merger is expected to be on or about May 20, 2016.

Prior to completion of the Merger, MHY and HIO will each received an opinion of Simpson Thacher & Bartlett LLP to the effect that the Merger will qualify as a tax-free reorganization for federal income tax purposes. Accordingly, for federal income tax purposes, (i) no gain or loss will generally be recognized by MHY (except for consequences regularly attributable to a termination of MHY s taxable year) or (subject to the following sentence) the holders of MHY Common Shares as a result of the Merger, (ii) the aggregate tax basis of the HIO Common Shares (including fractional HIO Common

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Shares purchased by HIO) received by the holders of MHY Common Shares will be the same as the aggregate tax basis of the holders MHY Common Shares immediately prior to the completion of the Merger and (iii) a holder s holding period for HIO Common Shares (including that of fractional HIO Common Shares purchased by HIO) will generally be determined by including the period for which such stockholder held MHY Common Shares converted pursuant to the Merger, provided that such shares were held by such stockholder as capital assets. Holders of MHY Common Shares may, however, recognize gain or loss with respect to cash such holders receive pursuant to the Merger in lieu of fractional shares. For more information about the federal income tax consequences of the Merger, see Information about the Proposed Merger Federal Income Tax Consequences below.

Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks

MHY and HIO have nearly identical investment objectives and substantially similar policies and strategies.

MHY s primary investment objective is high current income. Capital appreciation is a secondary objective. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights. In addition, MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.

In seeking to fulfill its investment objectives, HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights. In addition, HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars. Furthermore, HIO may invest up to 15% of its assets in illiquid securities.

The current investment objectives and policies of HIO will continue unchanged if the Merger occurs.

Neither Fund is intended to be a complete investment program, and there is no assurance that either Fund will achieve its objectives.

The preceding summary of the Funds investment objectives and certain policies should be considered in conjunction with the discussion below under Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds-Investment Objectives, -Principal Investment Strategies, -Fundamental Investment Restrictions and -Risk Factors.

Effect on Expenses

LMPFA provides administrative and certain oversight services to MHY. MHY pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of MHY s average daily net assets. Similarly, HIO currently pays LMPFA, which is also HIO s investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets. Although HIO s investment management fee is identical to MHY s, MHY also pays 0.13% in other expenses based on its average daily net assets, whereas HIO only pays 0.09% in other expenses based on its average daily net assets. It is anticipated that MHY s shareholders total expense ratio will decline by 0.05% and HIO s shareholders total expense ratio will decline by 0.01% as a result of the Merger.

Fee Table and Expense Example

The table below (1) compares the estimated fees and expenses of each Fund, as of September 30, 2015, and (2) shows the estimated fees and expenses of the combined Fund, on a pro forma basis, as if the Merger occurred on September 30, 2015.

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The estimates are based on the contracts and agreements in effect as of September 30, 2015 and reflect the operating expense accrual rates on that date, which are based on each Fund s net assets as of September 30, 2015. Accordingly, the actual fees and expenses of each Fund and the combined Fund as of the Closing Date of the Merger may differ from those reflected in the tables below due to changes in net assets from those at September 30, 2015. No amount of any prior fee waiver or expense reimbursement to HIO or MHY may be recovered by any person.

Changes in net assets may result from market appreciation or depreciation and other factors occurring between December 31, 2015 and the Closing Date of the Merger. As a general matter, changes (positive or negative) in a Fund s expense ratio resulting from fluctuations in the Fund s net assets will be borne by the stockholders of that Fund and the combined Fund. For information concerning the net assets of each Fund as of November 30, 2015, please see Capitalization.

The estimated expenses of MHY and HIO as of September 30, 2015 and pro forma expenses following the proposed Merger are set forth below. The percentages in the table below are percentages of the Funds net assets attributable to Common Shares.

Fee Table

	Pre-Merger		
	MHY (Target Fund)	**HIO (Acquiring Fund)**	**HIO (Pro Forma Combined Fund)**
Management Fee	0.80%	0.80%	0.80%
Other expenses	0.13%	0.09%	0.08%
Total Annual Fund Operating Expenses	0.93%	0.89%	0.88%

Example

The following example helps you compare the costs of investing in the Funds Common Shares with the costs of investing in other funds. The example assumes that you invest $1,000 in the Funds Common Shares for the periods shown, that your investment has a 5% return each year, that you reinvest all distributions and dividends and that the Funds operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	1 Year	**3 Years**	**5 Years**	**10 Years**
MHY	$ 9	$ 29	$ 51	$ 115
HIO	$ 9	$ 28	$ 49	$ 110
Pro Forma Combined Fund	$ 9	$ 28	$ 49	$ 108

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COMPARISON OF INVESTMENT OBJECTIVES, STRATEGIES AND PRINCIPAL RISKS OF INVESTING IN THE FUNDS

The following chart lists the investment objectives, principal investment policies and fundamental investment restrictions of MHY and HIO and describes the principal differences between the Funds respective policies. The chart provides MHY and HIO stockholders with a means of comparing the investment objectives, policies and strategies of MHY and HIO.

	Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
Investment Objective(s)	MHY s primary investment objective is high current income and MHY s secondary investment objective is capital appreciation.	HIO s primary investment objective is high current income and HIO s secondary investment objective is capital appreciation.	No difference.
Principal Investment Policies and Strategies	Under normal market conditions, MHY will invest at least 80% of its assets in high-yield corporate bonds, debentures and notes. Up to 20% of its assets may be invested in common stock or other equity or equity-related securities, including convertible securities, preferred stock, warrants and rights.	Under normal market conditions, HIO will invest at least 80% of its net assets plus any borrowings for investment purposes in high-yield corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights.	Substantively identical.
	MHY may invest up to 20% of its assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.	HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.	No difference.
	MHY may use a variety of derivative instruments for investment purposes as well as for hedging or risk management purposes.	HIO may use a variety of derivative instruments for investment purposes as well as for hedging or risk management purposes. These derivative instruments may include futures contracts, credit default swaps, credit default swap index securities, swap agreements and options on such instruments. As part of its strategies, HIO may purchase and sell futures contracts; purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial indices and futures contracts; enter into interest rate and	Substantively identical.

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	Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
		currency transactions; and enter into other similar transactions which may be developed in the future to the extent Western Asset determines that they are consistent with the investment objectives and policies and applicable regulatory requirements.	
	MHY may invest up to 15% of its assets in illiquid securities.	HIO may invest up to 15% of its assets in illiquid securities.	No difference.
	MHY may make short sales of securities in order to reduce market exposure and/or to increase its income if, at all times when a short position is open, MHY owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of the securities sold short. Short sales of this kind are referred to as short sales against the box. MHY will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of MHY s total assets (taken at current value) may be held as collateral for such sales at any one time.	HIO may make short sales of securities in order to reduce market exposure and/or to increase its income if, at all times when a short position is open, HIO owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of the securities sold short. Short sales of this kind are referred to as short sales against the box. HIO will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of HIO s total assets (taken at current value) may be held as collateral for such sales at any one time.	No difference.
Fundamental Investment Restrictions	MHY may not purchase any securities which would cause more than 25% of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry, provided that there shall be no limit on the purchase of U.S. government securities.	HIO may not purchase any securities which would cause more than 25% of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry, provided that there shall be no limit on the purchase of U.S. government securities.	No difference.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may not invest in the securities of any issuer (other than U.S. government securities) if, as a result, more than 5% of the value of its total assets would be invested in the securities of the issuer, except that up to 25% of the value of its total assets may be invested without regard to this 5% limitation.	HIO may not purchase the securities of any issuer, other than U.S. government securities, if as a result more than 5% of the value of its total assets would be invested in the securities of the issuer, except that up to 25% of the value of its total assets may be invested without regard to this 5% limitation.	No difference.
MHY may not borrow money, except that (a) it may borrow from banks for temporary or emergency (not leveraging) purposes in an amount not exceeding 10% of the value of its total assets (including the amount borrowed) valued at the time the borrowing is made and (b) it may enter into futures contacts. Whenever borrowings described in (a) exceed 5% of the value of its total assets, it will not make any additional investments.	HIO may not (a) borrow money, except that (i) HIO may borrow from banks for temporary or emergency (not leveraging) purposes in an amount not exceeding 10% of the value of its total assets (including the amount borrowed) valued at market less liabilities (not including the amount borrowed) at the time the borrowing is made (provided that HIO will not make any additional investments while such borrowings exceed 5% of the value of its total assets) and (ii) HIO may enter into futures contracts, or (b) pledge, hypothecate, mortgage or otherwise encumber its assets except to secure borrowings and as margin for commodities transactions.	Substantively identical.
MHY may not pledge, hypothecate, mortgage or otherwise encumber more than 10% of the value of its total assets. For purposes of this restriction, the deposit of assets in escrow in connection with the writing of options, the purchase of securities on a when-issued or delayed-delivery basis, the entry into forward currency contracts and securities lending transactions and collateral arrangements with respect to options transactions and margin for futures contracts and options on futures contracts, will not be deemed to be pledges of the portfolio s assets.		MHY may hypothecate, mortgage or otherwise encumber up to 10% of the value of its total assets, while HIO may not pledge, hypothecate, mortgage or otherwise encumber its assets except to secure borrowings and as margin for commodities transactions.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may not issue senior securities, except to the extent permitted by (i) the 1940 Act, or interpretations or modifications by the SEC, the SEC staff or other authority with appropriate jurisdiction, (ii) exemptive or other relief or permission from the SEC, the SEC staff or other authority and (iii) MHY s restriction on borrowing money.	HIO may not issue senior securities, except to the extent permitted by (i) the 1940 Act, or interpretations or modifications by the SEC, the SEC staff or other authority with appropriate jurisdiction, (ii) exemptive or other relief or permission from the SEC, the SEC staff or other authority and (iii) HIO s restriction on borrowing money.	No difference.
MHY may not purchase more than 10% of the voting securities of any one issuer (other than U.S. government securities), except that up to 25% of the value of its total assets may be invested without regard to the 10% limitation.	HIO may not purchase more than 10% of the voting securities of any one issuer (other than U.S. government securities), except that up to 25% of the value of its total assets may be invested without regard to this 10% limitation.	No difference.
MHY may not invest in commodities, except that it may invest in futures contracts and options on futures contracts and options on currencies.	HIO may not invest in commodities, except that it may invest in futures contracts, options on futures contracts and options on currencies.	No difference.
MHY may not make loans to others, except through the purchase of qualified debt obligations, the entry into repurchase agreements and loans of portfolio securities consistent with its investment objectives and policies.	HIO may not make loans to others, except through the purchase of qualified debt obligations, the entry into repurchase agreements and loans of portfolio securities consistent with its investment objectives and policies.	No difference.
MHY may not underwrite the securities of other issuers, except insofar as it may be deemed an underwriter under the Securities Act of 1933, as amended, by virtue of disposing of portfolio securities.	HIO may not underwrite the securities of other issuers, except insofar as it may be deemed an underwriter in the course of disposing of portfolio securities.	No difference.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may not purchase or sell real estate or interests in real estate, except that it may purchase and sell securities that are secured by real estate or interests in real estate and may purchase securities issued by companies that invest or deal in real estate.	HIO may not purchase or sell real estate or interests in real estate, except that it may purchase and sell securities that are secured by real estate or interests in real estate and may purchase securities issued by companies that invest or deal in real estate.	No difference.
MHY may not purchase securities on margin, except that it may obtain any short-term credits necessary for the clearance of purchases and sales of securities. For purposes of this restriction, the deposit or payment of initial or variation margin in connection with futures contracts or related options will not be deemed to be a purchase of securities on margin.	HIO may not purchase securities on margin, except that it may obtain any short-term credits necessary for the clearance of purchases and sales of securities. For purposes of this restriction, the deposit or payment of initial or variation margin in connection with futures contracts or related options will not be deemed to be a purchase of securities on margin.	No difference.
MHY may not make short sales of securities or maintain a short position, except that it may engage in short sales against the box.	HIO may not make short sales of securities, except that it may engage in short sales against the box.	No difference.
MHY may not invest in securities of other investment companies registered or required to be registered under the 1940 Act, except as may be acquired as part of a merger, consolidation, reorganization, acquisition of assets or an offer of exchange or to the extent permitted by the 1940 Act.	HIO may not invest in securities of other investment companies registered or required to be registered under the 1940 Act, except as may be acquired as part of a merger, consolidation, reorganization, acquisition of assets or an offer of exchange, or to the extent permitted by the 1940 Act	No difference.

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	Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
Additional Investment Policies and Strategies	During times when, in the judgment of MHY s subadviser, conditions in securities markets would make pursuing MHY s basic investment strategy inconsistent with the best interest of MHY s stockholders, as a temporary defensive strategy, the subadviser may employ alternative strategies, including investment of all of MHY s assets in securities rated investment grade by any nationally recognized statistical rating organization, or in unrated securities of comparable quality.	If, in Western Asset Management Company (Western Asset) judgment, conditions in the securities markets would make pursuing the basic investment strategy inconsistent with the stockholders best interests, the investment manager may employ alternative strategies, including investment of all of HIO s assets in securities rated investment grade by any nationally recognized statistical rating organization.	Substantively identical.
	When economic conditions warrant a temporary defensive posture, MHY may invest without limitation in short-term money market instruments rated in the two highest ratings categories by a nationally recognized statistical ratings organization, or in unrated instruments of comparable quality. MHY may also invest in money market instruments to help defray operating expenses, to serve as collateral in connection with certain investment techniques and to hold as a reserve pending the payment of dividends to investors. Money market instruments in which MHY typically expects to invest include U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers acceptances of U.S. or foreign banks); commercial paper; and repurchase agreements.	Money market instruments that HIO may acquire will be securities rated in the two highest short-term rating categories by Moody s or S&P or the equivalent of such rating categories by another major rating service, or comparable unrated securities. Money market instruments in which HIO typically expects to invest include U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers acceptances of U.S. or foreign banks); commercial paper; and repurchase agreements.	MHY may invest without limitation in short-term money market instruments to help defray operating expenses, to serve as collateral in connection with certain investment techniques and to hold as a reserve pending the payment of dividends to investors.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
In order to mitigate the effects of uncertainty in future exchange rates affecting the portfolio s non-dollar investments, MHY may engage in currency exchange transactions and currency futures contracts and related options and purchase options on foreign currencies. MHY may also hedge against the effects of changes in the value of its investments by entering into interest rate futures contracts and related options.	HIO may, but is not required to, utilize various investment techniques to earn income, facilitate portfolio management and mitigate risk. These investment techniques utilize convertible securities, interest rate and currency futures contracts, put and call options on such futures contracts, currency exchange transactions, illiquid securities, securities of unseasoned issuers and securities of foreign governments and corporations including those of developing countries. Any or all of the investment techniques available to the investment manager may be used at any time, and there is no particular strategy that dictates the use of one technique rather than another.	MHY may only engage in currency exchange transactions, currency futures contracts and related options and purchase options on foreign currencies for hedging purposes while HIO may do so to earn income, facilitate portfolio management and mitigate risk.
MHY may invest in zero coupon, pay-in-kind and delayed interest securities as well as custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both on certain U.S. government securities.	HIO may invest in zero coupon, pay-in-kind and delayed interest securities as well as custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both on certain U.S. government securities.	No difference.
MHY may invest up to 15% of its assets in corporate loans.	HIO may invest up to 15% of its assets in corporate loans.	No difference.
MHY may hold securities or use investment techniques that provide for payments based on or derived from the performance of an underlying asset, index or other economic benchmark.		

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may enter into interest rate and currency futures contracts and may purchase and sell put and call options on such futures contracts.	HIO may enter into interest rate and currency futures contracts and may purchase and sell put and call options on such futures contracts.	Substantively identical.
MHY may only enter into futures contracts traded on regulated commodity exchanges. MHY may purchase and write put and call options on futures contracts in order to hedge all or a portion of its investments and may enter into closing purchase transactions with respect to options written by MHY in order to terminate existing positions. With respect to options purchased by MHY, MHY will not make daily cash payments to reflect changes in the value of the underlying contracts; however, the value of such options would change daily and such change would be reflected in MHY s net asset value.	HIO may only enter into futures contracts traded on regulated commodity exchanges. HIO may either accept or make delivery of cash or the underlying instrument specified at the expiration of a futures contract or, prior to expiration, enter into a closing transaction involving the purchase or sale of an offsetting contract. HIO may purchase and write put and call options on futures contracts in order to hedge all or a portion of its investments and may enter into closing purchase transactions with respect to options written by HIO in order to terminate existing positions. With respect to options purchased by HIO, HIO will not make daily cash payments to reflect changes in the value of the underlying contracts; however, the value of the options would change daily and that change would be reflected in HIO s net asset value.	
MHY may enter into repurchase agreement transactions with certain member banks of the Federal Reserve System or with certain dealers listed on the Federal Reserve Bank of New York s list of reporting dealers.	HIO may enter into repurchase agreement transactions with certain member banks of the Federal Reserve System or with certain dealers listed on the Federal Reserve Bank of New York s list of reporting dealers.	No difference.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may purchase securities on a when-issued basis or for delayed delivery. MHY will not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date and will establish with the Custodian a segregated account consisting of cash, U.S. government securities or other liquid high grade debt obligations in an amount equal to the amount of all when-issued and delayed delivery purchase commitments.	HIO may purchase securities on a when-issued basis or for delayed delivery. HIO will not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date and will establish with the Custodian a segregated account consisting of cash, U.S. government securities or other liquid high grade debt obligations in an amount equal to the amount of all when-issued and delayed delivery purchase commitments.	No difference.
MHY is authorized to lend securities it holds to brokers, dealers and other financial organizations. MHY s loans of securities will be collateralized by cash, letters of credit or U.S. government securities that will be maintained at all times in a segregated account in an amount equal to the current market value of the loaned securities.	HIO is authorized to lend securities it holds to brokers, dealers and other financial organizations. The amount of such loans, if and when made, may not exceed 20% of the value of HIO s assets. HIO s loans of securities will be collateralized by cash, letters of credit or U.S. government securities that will be maintained at all times in a segregated account in an amount equal to the current market value of the loaned securities. From time to time, HIO may pay a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party that is unaffiliated with HIO and that is acting as a finder. The portfolio will adhere to the following conditions whenever it lends its securities: (1) HIO must receive at least 100% cash collateral or equivalent securities from the borrower, which amount of collateral will be maintained by daily marking to market; (2) the borrower must increase the collateral whenever the market	Loans of HIO s securities, if and when made, may not exceed 20% of HIO s assets taken at value. MHY has no such restriction. HIO is bound by restrictive conditions whenever it lends its securities, while MHY is not bound by such restrictive conditions.

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
	value of the securities loaned exceeds the value of the collateral; (3) HIO must be able to terminate the loan at any time; (4) HIO must receive reasonable interest on the loan, as well as any dividends, interest or other distributions on, and any increase in value in, the loaned securities; (5) HIO may pay only reasonable custodian fees in connection with the loan; and (6) voting rights on the loaned securities may pass to the borrower, except that, if a material event adversely affecting the investment in the loaned securities occurs, HIO s Board of Directors must terminate the loan and regain HIO s right to vote the securities.	
MHY may engage in currency exchange transactions and purchase exchange-traded put and call options on foreign currencies.	HIO may engage in currency exchange transactions and purchase exchange-traded put and call options on foreign currencies.	No difference.
MHY will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the rate prevailing in the currency exchange market or by entering into forward contracts to purchase or sell currencies. MHY s dealings in forward currency exchange transactions will be limited to hedges involving either specific transactions or portfolio positions.	HIO will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the rate prevailing in the currency exchange market or by entering into forward contracts to purchase or sell currencies. HIO will not position hedge with respect to a particular currency to an extent greater than the aggregate market value at any time of the security or securities held in its portfolio denominated or quoted in or currently convertible (such as through the exercise of an option or the consummation of a forward currency contract) in that particular currency. If HIO enters into a transaction hedging or position hedging transaction with respect to a particular currency, it will	HIO is restricted from engaging in position hedging transactions with respect to a particular currency to an extent greater than the aggregate market value at any time of the security or securities held in its portfolio denominated or quoted in or currently convertible in that particular currency. MHY has no such restriction.

Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
	cover the transaction through one or more of the following methods: (a) ownership of the underlying currency or an option to purchase such currency; (b) ownership of an option to enter into an offsetting forward currency contract; (c) entering into a forward contract to purchase currency being sold or to sell currency being purchased, provided that such covering contract is itself covered by any one of these methods unless the covering contract closes out the first contract; or (4) depositing into a segregated account with the custodian or a sub-custodian of HIO cash or readily marketable securities in an amount equal to the value of its total assets committed to the consummation of the forward currency contract and not otherwise covered. In the case of transaction hedging, any securities placed in such segregated account must be liquid debt securities. In any case, if the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will equal the value of HIO s total assets committed to the consummation of the forward currency contract and not otherwise covered. Hedging transactions may be made from any foreign currency into dollars or into other appropriate currencies.	

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Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
MHY may purchase put options on a foreign currency in which securities held by MHY are denominated to protect against a decline in the value of such currency in relation to the currency in which the exercise price is denominated. MHY may purchase a call option on a foreign currency to hedge against an adverse exchange rate between the currency denominating a security that it anticipates purchasing and the currency denominating the exercise price. Although the purchase of an option on a foreign currency may constitute an effective hedge against fluctuations in exchange rates, in the event of rate movements adverse to a portfolio s position, MHY may forfeit the entire amount of the premium plus related transaction costs. Options on foreign currencies purchased by MHY may be traded on domestic and foreign exchanges or traded over-the-counter.	HIO may purchase put options on a foreign currency in which securities held by HIO are denominated to protect against a decline in the value of such currency in relation to the currency in which the exercise price is denominated. Options on foreign currencies purchased by HIO may be traded on domestic and foreign exchanges or traded over-the-counter.	HIO has no specific policy with respect to purchasing a call option on a foreign currency to hedge against an adverse exchange rate of the currency denominating a security that it anticipates purchasing in relation to the currency denominating the exercise price.
MHY may invest in direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities, which includes Treasury Bills, Treasury Notes and Treasury Bonds. Securities issued by U.S. government agencies and instrumentalities include: securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds).	HIO may invest in direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities, which includes Treasury Bills, Treasury Notes and Treasury Bonds. Securities issued by U.S. government agencies and instrumentalities include: securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds).	No difference.

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	Western Asset Managed High Income Fund Inc.	Western Asset High Income Opportunity Fund Inc.	Differences between HIO and MHY
	MHY may invest in asset-backed securities, real estate investment trusts (REITs), mortgage-backed securities and dollar rolls.	HIO may invest in dollar rolls, asset-backed securities and mortgage-backed securities.	Substantively identical.
	MHY may purchase Rule 144A Securities, which are unregistered securities restricted to purchase by qualified institutional buyers pursuant to Rule 144A under the 1933 Act.	N/A	HIO has no specific policy with respect to Rule 144A Securities.

Risk Factors

There is no assurance that HIO or MHY will meet their investment objectives. You may lose money on your investment in either Fund. The value of each Fund s shares may go up or down, sometimes rapidly and unpredictably. Market conditions, financial conditions of issuers represented in each Fund s portfolio, investment strategies, portfolio management, and other factors affect the volatility of each Fund s shares. An investment in HIO is not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The following section includes a summary of the principal risks of investing in HIO. Except as described below, your investment in MHY is subject to the same risks.

Investment and Market Risk. An investment in HIO is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in HIO Common Shares represents an indirect investment in the fixed income securities and other investments owned by HIO, most of which could be purchased directly. The value of HIO s portfolio securities may move up or down, sometimes rapidly and unpredictably. If the current global economic downturn continues or deteriorates further, the ability of issuers to service their obligations could be materially and adversely affected. At any point in time, your HIO Common Shares may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Fixed Income Securities Risk. In addition to the risks described elsewhere in this section with respect to valuations and liquidity, fixed income securities, including high-yield securities, are also subject to certain risks, including:

Issuer Risk. The value of fixed income securities may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer s goods and services.

Interest Rate Risk. The market price of HIO s investments will change in response to changes in interest rates and other factors. During periods of declining interest rates, the market price of fixed income securities generally rises. Conversely, during periods of rising interest rates, the market price of such securities generally declines. The magnitude of these fluctuations in the market price of fixed income securities is generally greater for securities with longer maturities. Fluctuations in the market price of HIO s securities will not affect interest income derived from securities already owned by HIO, but will be reflected in HIO s net asset value. HIO may utilize certain strategies, including investments in structured notes or interest rate swap or cap transactions, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing HIO s exposure to interest rate risk, although there is no assurance that it will do so or that such strategies will be successful.

Prepayment Risk. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing HIO to reinvest the proceeds from such prepayment in lower yielding securities, which may result in a decline in HIO s income and distributions to stockholders. This is known as prepayment or call risk. Debt securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met. An issuer may choose to redeem a debt security if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.

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Reinvestment Risk. Reinvestment risk is the risk that income from HIO s portfolio will decline if and when HIO invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the portfolio s current earnings rate. A decline in income could affect HIO s Common Shares price or its overall return.

Credit Risk. Credit risk is the risk that one or more fixed income securities in HIO s portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. If the recent adverse conditions in the credit markets continue to adversely affect the broader global economy, the credit quality of issuers of fixed income securities in which HIO may invest would be more likely to decline, all other things being equal. Changes by a nationally recognized statistical rating organization (NRSRO) in its rating of securities and in the ability of an issuer to make scheduled payments may also affect the value of HIO s investments. Since HIO invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund which invests solely in investment grade securities. The prices of lower grade securities generally are more sensitive to negative developments, such as a decline in the issuer s revenues or a general economic downturn, than are the prices of higher grade securities. High-yield fixed income securities are predominantly speculative with respect to the issuer s capacity to pay interest and repay principal when due and therefore involve a greater risk of default.

Liquidity Risk. HIO may invest in illiquid securities. Illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which HIO has valued the securities. Liquidity risk exists when particular investments are difficult to sell. Securities may become illiquid after purchase by HIO, particularly during periods of market turmoil. When HIO holds illiquid investments, the portfolio may be harder to value, especially in changing markets, and if HIO is forced to sell these investments in order to segregate assets or for other cash needs, HIO may suffer a loss.

Below Investment Grade (High-Yield or Junk) Securities Risk. HIO may invest in high-yield debt securities. Debt securities rated below investment grade are commonly referred to as high-yield securities or junk bonds and are regarded as having predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. Debt securities rated C or lower by Moody s, CCC or lower by S&P or CC or lower by Fitch or comparably rated by another NRSRO or, if unrated, determined by Western Asset to be of comparable quality are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, to be unlikely to have the capacity to pay interest and repay principal when due in the event of adverse business, financial or economic conditions and/or to be in default or not current in the payment of interest or principal. Ratings may not accurately reflect the actual credit risk associated with a corporate security.

Debt securities rated below investment grade generally offer a higher current yield than that available from higher grade issues, but typically involve greater risk. These securities are especially sensitive to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of below investment grade instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. The secondary market for high-yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on HIO s ability to dispose of a particular security. There are fewer dealers in the market for high-yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly, and the spread between the bid and asked price is generally much larger for high-yield securities than for higher quality instruments. Under continuing adverse market or economic conditions, the secondary market for high-yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these securities may become illiquid. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of below investment grade securities, especially in a market characterized by a low volume of trading.

Default, or the market s perception that an issuer is likely to default, could reduce the value and liquidity of securities held by HIO, thereby reducing the value of your investment in HIO s Common Shares. In addition, default may cause HIO to incur expenses in seeking recovery of principal or interest on its portfolio holdings. In any reorganization or liquidation

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proceeding relating to a portfolio company, HIO may lose its entire investment or may be required to accept cash or securities with a value less than its original investment. Among the risks inherent in investments in a troubled entity is the fact that it frequently may be difficult to obtain information as to the true financial condition of such issuer. Western Asset s judgment about the credit quality of an issuer and the relative value of its securities may prove to be wrong. Investments in below investment grade securities may present special tax issues for HIO to the extent that the issuers of these securities default on their obligations pertaining thereto, and the U.S. federal income tax consequences to HIO as a holder of such distressed securities may not be clear.

Foreign Securities and Emerging Markets Risk. A fund that invests in foreign (non-U.S.) securities may experience more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Investments in foreign securities (including those denominated in U.S. dollars) are subject to economic and political developments in the countries and regions where the issuers operate or are domiciled, or where the securities are traded, such as changes in economic or monetary policies. Values may also be affected by restrictions on receiving the investment proceeds from a foreign country. Less information may be publicly available about foreign companies than about U.S. companies. Foreign companies are generally not subject to the same accounting, auditing and financial reporting standards as are U.S. companies. In addition, HIO s investments in foreign securities may be subject to the risk of nationalization or expropriation of assets, imposition of currency exchange controls or restrictions on the repatriation of foreign currency, confiscatory taxation, political or financial instability and adverse diplomatic developments. In addition, there may be difficulty in obtaining or enforcing a court judgment abroad. Dividends or interest on, or proceeds from the sale of, foreign securities may be subject to non-U.S. withholding taxes, and special U.S. tax considerations may apply.

The risks of foreign investment are greater for investments in emerging markets. HIO considers a country to be an emerging market country if, at the time of investment, it is represented in the J.P. Morgan Emerging Markets Bond Index Global or categorized by the World Bank in its annual categorization as middle or low-income. Emerging market countries typically have economic and political systems that are less fully developed, and that can be expected to be less stable, than those of more advanced countries. Low trading volumes may result in a lack of liquidity and in price volatility. Emerging market countries may have policies that restrict investment by foreigners, that require governmental approval prior to investments by foreign persons, or that prevent foreign investors from withdrawing their money at will. An investment in emerging market securities should be considered speculative.

Non-U.S. Government, or Sovereign, Debt Securities Risk. HIO invests in non-U.S. government, or sovereign, debt securities. The ability of a government issuer, especially in an emerging market country, to make timely and complete payments on its debt obligations will be strongly influenced by the government issuer s balance of payments, including export performance, its access to international credits and investments, fluctuations of interest rates and the extent of its foreign reserves. A country whose exports are concentrated in a few commodities or whose economy depends on certain strategic imports could be vulnerable to fluctuations in international prices of these commodities or imports. To the extent that a country receives payment for its exports in currencies other than U.S. dollars, its ability to make debt payments denominated in U.S. dollars could be adversely affected. If a government issuer cannot generate sufficient earnings from foreign trade to service its external debt, it may need to depend on continuing loans and aid from foreign governments, commercial banks, and multinational organizations. There are no bankruptcy proceedings similar to those in the United States by which defaulted non-U.S. government debt may be collected. Additional factors that may influence a government issuer s ability or willingness to service debt include, but are not limited to, a country s cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole, and the issuer s policy towards the International Monetary Fund, the International Bank for Reconstruction and Development and other international agencies to which a government debtor may be subject.

Since 2010, the risks of investing in foreign sovereign debt have increased dramatically as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on HIO s investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of HIO. Moreover, as the European debt crisis has progressed, the possibility of one or more

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Eurozone countries exiting the European monetary union, or even the collapse of the Euro as a common currency, has arisen. The effects of the collapse of the Euro, or of the exit of one or more countries from the European monetary union, on the United States and the global economy and securities markets are impossible to predict and any such events could have a significant adverse impact on the value and risk profile of HIO. See Risk Factors Currency Risk.

Currency Risk. If HIO invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions intended to protect HIO from decline in the value of foreign (non-U.S.) currencies, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by HIO. As a result, HIO s investments in foreign currency denominated securities may reduce the returns of HIO. HIO will compute, and expects to distribute, its income in U.S. dollars, and the computation of income is made on the date that the income is earned by HIO at the foreign exchange rate in effect on that date. If the value of the foreign currencies in which HIO receives its income falls relative to the U.S. dollar between the earning of the income and the time at which HIO converts the foreign currencies to U.S. dollars, HIO may be required to liquidate securities in order to make distributions if HIO has insufficient cash in U.S. dollars to meet distribution requirements. See Dividends and Distributions Distributions and HIO Dividend Reinvestment Plan. The liquidation of investments, if required, may have an adverse impact on HIO s performance.

HIO may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. In addition, there may be instances in which HIO s portfolio contains synthetic exposure to a particular currency even though HIO does not own any bonds denominated in such a currency. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, the use of other derivatives, as well as purchasing put or call options on currencies, in U.S. or foreign markets. Currency hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent Western Asset s view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if they had not been used. In addition, in certain countries in which HIO may invest, currency hedging opportunities may not be available. See Risk Factors Derivatives Risk.

In addition, realizations and drawdowns in HIO s currency exposure may add to volatility to HIO s distributable income. If HIO s currency exposure results in a negative return to HIO, it may result in HIO making distributions, some or all of which consist of a return of capital.

U.S. Government Debt Securities Risk. U.S. government debt securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government debt securities are generally lower than the yields available from other securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in HIO s net asset value. Since the magnitude of these fluctuations will generally be greater at times when HIO s average maturity is longer, under certain market conditions HIO may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

Derivatives Risk. HIO may utilize a variety of derivative instruments such as options, floors, caps and collars, futures contracts, forward contracts, options on futures contracts and indexed securities. Generally derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates and related indexes. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, credit risk and management risk. Derivatives are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. Changes in the credit quality of the companies that serve as HIO s counterparties with respect to its derivative transactions will affect the value of those instruments. By using derivatives that expose HIO to counterparties, HIO assumes the risk that

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its counterparties could experience financial hardships that could call into question their continued ability to perform their obligations. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If HIO is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, HIO will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. As a result, concentrations of such derivatives in any one counterparty would subject HIO to an additional degree of risk with respect to defaults by such counterparty. See Counterparty Risk . Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances and there can be no assurance that HIO will engage in these transactions to reduce exposure to other risks when that would be beneficial. If HIO invests in a derivative instrument, it could lose more than the principal amount invested. Changes to the derivatives markets as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other government regulation may have an adverse effect on HIO s ability to make use of derivative transactions.

Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large impact on HIO s performance.

It is possible that government regulation of various types of derivative instruments, including interest rate swaps, interest rate options, credit linked notes, foreign currency forward contracts, credit default swaps and total return swaps on individual securities and groups or indexes of securities may limit or prevent HIO from using such instruments as part of its investment strategy, which could negatively affect HIO s performance. For example, the U.S. Government recently enacted legislation that provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Although the CFTC has released final rules relating to clearing, reporting, recordkeeping and registration requirements, many of the provisions contained in the Dodd-Frank Act are subject to further final rulemaking. New regulations could, among other things, restrict HIO s ability to engage in derivatives transactions (for example, by making certain types of derivatives transactions no longer available to HIO) and/or increase the costs of such derivatives transactions (for example, by increasing margin or capital requirements), and HIO may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

HIO is operated by persons who have claimed an exclusion, granted to operators of registered investment companies like HIO, from registration as a commodity pool operator with respect to HIO under the Commodity Exchange Act (the CEA), and who, therefore, are not subject to registration or regulation with respect to HIO under the CEA. As a result, effective December 31, 2012, HIO is limited in its ability to use commodity futures (which include futures on broad-based securities indexes and interest rate futures) or options on commodity futures, engage in swaps transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging. With respect to transactions other than for bona fide hedging purposes, either: (1) the aggregate initial margin and premiums required to establish HIO s positions in such investments may not exceed 5% of the liquidation value of HIO s portfolio (after accounting for unrealized profits and unrealized losses on any such investments); or (2) the aggregate net notional value of such instruments, determined at the time the most recent position was established, may not exceed 100% of the liquidation value of HIO s portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, HIO may not market itself as a commodity pool or otherwise as a vehicle for trading in the futures, options or swaps markets.

Derivatives Regulation Risk. In connection with an ongoing review by the SEC and its staff of the regulation of investment companies use of derivatives, on August 31, 2011, the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of HIO s use of derivatives, which could have an adverse impact on HIO. Neither LMPFA nor Western Asset can predict the effects of these regulations on HIO s portfolio. LMPFA and Western Asset monitor developments and seek to manage HIO s portfolio in a manner consistent with achieving HIO s investment objectives, but there can be no assurance that they will be successful in doing so.

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Potential Conflicts of Interest Risk. LMPFA, Western Asset, Western Asset Management Company Limited (Western Asset Limited and together with LMPF and Western Asset, the Managers) and HIO s investment professionals have interests which may conflict with the interests of HIO. In particular, the Managers also manage other closed-end funds listed on the NYSE that have investment objectives and investment strategies that are substantially similar to HIO. Further, the Managers may at some time in the future manage and/or advise other investment funds or accounts with the same investment objective and strategies as HIO. As a result, the Managers and HIO s investment professionals may devote unequal time and attention to the management of HIO and those other funds and accounts, and may not be able to formulate as complete a strategy or identify equally attractive investment opportunities as might be the case if they were to devote substantially more attention to the management of HIO. The Managers and HIO s investment professionals may identify a limited investment opportunity that may be suitable for multiple funds and accounts, and the opportunity may be allocated among these several funds and accounts, which may limit HIO s ability to take full advantage of the investment opportunity. Additionally, transaction orders may be aggregated for multiple accounts for purpose of execution, which may cause the price or brokerage costs to be less favorable to HIO than if similar transactions were not being executed concurrently for other accounts. At times, an investment professional may determine that an investment opportunity may be appropriate for only some accounts for which he or she exercises investment responsibility, or may decide that certain accounts should take differing positions with respect to a particular security. In these cases, the investment professional may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and accounts. For example, an investment professional may determine that it would be in the interest of another account to sell a security that HIO holds, potentially resulting in a decrease in the market value of the security held by HIO.

Inflation/Deflation Risk. Inflation risk is the risk that the value of certain assets or income from HIO s investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of HIO Common Shares and distributions on HIO Common Shares can decline. Deflation risk is the risk that prices throughout the economy decline over time the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of HIO s portfolio.

Risks of Futures and Options on Futures. The use by HIO of futures contracts and options on futures contracts to hedge interest rate risks involves special considerations and risks, as described below.

Successful use of hedging transactions depends upon Western Asset s ability to correctly predict the direction of changes in interest rates. There can be no assurance that any particular hedging strategy will succeed.

There might be imperfect correlation, or even no correlation, between the price movements of a futures or option contract and the movements of the interest rates being hedged. Such a lack of correlation might occur due to factors unrelated to the interest rates being hedged, such as market liquidity and speculative or other pressures on the markets in which the hedging instrument is traded.

Hedging strategies, if successful, can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable movements in the interest rates being hedged. However, hedging strategies can also reduce opportunity for gain by offsetting the positive effect of favorable movements in the hedged interest rates.

There is no assurance that a liquid secondary market will exist for any particular futures contract or option thereon at any particular time. If HIO were unable to liquidate a futures contract or an option on a futures contract position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. HIO would continue to be subject to market risk with respect to the position.

There is no assurance that HIO will use hedging transactions. For example, if HIO determines that the cost of hedging will exceed the potential benefit to HIO, HIO will not enter into such transactions.

When-Issued and Delayed-Delivery Transactions Risk. HIO may purchase fixed income securities on a when-issued basis, and may purchase or sell those securities for delayed delivery. When-issued and delayed-delivery transactions occur when securities are purchased or sold by HIO with payment and delivery taking place in the future to secure an advantageous yield or price. Securities purchased on a when-issued or delayed-delivery basis may expose HIO to counterparty risk of default as well as the risk that securities may experience fluctuations in value prior to their actual delivery. HIO will not accrue income with respect to a when-issued or delayed-delivery security prior to its stated delivery date. Purchasing

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securities on a when-issued or delayed-delivery basis can involve the additional risk that the price or yield available in the market when the delivery takes place may not be as favorable as that obtained in the transaction itself.

Portfolio Turnover Risk. Changes to the investments of HIO may be made regardless of the length of time particular investments have been held. A high portfolio turnover rate may result in increased transaction costs for HIO in the form of increased dealer spreads and other transactional costs, which may have an adverse impact on HIO s performance. In addition, high portfolio turnover may result in the realization of net short-term capital gains by HIO which, when distributed to stockholders, will be taxable as ordinary income. A high portfolio turnover may increase HIO s current and accumulated earnings and profits, resulting in a greater portion of HIO s distributions being treated as a dividend to HIO s stockholders. The portfolio turnover rate of HIO will vary from year to year, as well as within a given year.

Temporary Defensive Strategies Risk. When Western Asset anticipates unusual market or other conditions, HIO may temporarily depart from its principal investment strategies as a defensive measure and invest all or a portion of its assets in obligations of the U.S. government, its agencies or instrumentalities; other investment grade debt securities; investment grade commercial paper; certificates of deposit and bankers acceptances; repurchase agreements with respect to any of the foregoing investments or any other fixed income securities that Western Asset considers consistent with this strategy. To the extent that HIO invests defensively, it may not achieve its investment objectives.

Market Price Discount from Net Asset Value Risk. Shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk is separate and distinct from the risk that HIO s net asset value could decrease as a result of its investment activities and may be a greater risk to investors expecting to sell their HIO Common Shares in a relatively short period. Whether investors will realize gains or losses upon the sale of HIO Common Shares will depend not upon HIO s net asset value but upon whether the market price of HIO Common Shares at the time of sale is above or below the investor s purchase price for HIO Common Shares. Because the market price of HIO Common Shares will be determined by factors such as relative supply of and demand for HIO Common Shares in the market, general market and economic conditions and other factors beyond the control of HIO, HIO cannot predict whether HIO Common Shares will trade at, above or below net asset value. HIO Common Shares are designed primarily for long-term investors and you should not view HIO as a vehicle for trading purposes.

Anti-Takeover Provisions. HIO s Charter and Bylaws include provisions that could limit the ability of other entities or persons to acquire control of HIO or convert HIO to an open-end fund. These provisions could have the effect of depriving common stockholders of opportunities to sell their HIO Common Shares at a premium over the then-current market price of HIO Common Shares.

Market Disruption and Geopolitical Risk. Instability in the Middle East and terrorist attacks in the United States and around the world may have a substantial impact on the U.S. and world economies and securities markets. Terrorist attacks closed some of the U.S. securities markets in 2001, and similar events cannot be ruled out in the future. War, occupation, terrorism and related geopolitical risks have led, and may in the future lead to, increased short-term market volatility and adverse long-term effects on the U.S. and world economies and markets generally. These risks may adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, investor psychology, credit risk, inflation and other factors relating to HIO Common Shares. High-yield securities tend to be more volatile than higher-rated securities, so these or similar events may have a greater impact on the prices and volatility of high-yield securities than on higher rated securities.

Current Economic Conditions Credit Crisis Liquidity and Volatility Risk. The markets for credit instruments, including fixed income securities, have experienced periods of extreme illiquidity and volatility since the latter half of 2007. Tightening of credit conditions occurred just as a record amount of corporate bonds (as measured by transaction volume) were scheduled to enter the markets in the third quarter of 2007. This imbalance has caused a significant dislocation in the markets, marked by sharply widened credit spreads, delayed high-yield bond offerings and a general reduction in liquidity. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have also resulted in significant valuation uncertainties in a variety of debt securities, including certain fixed income securities. In addition, during 2008, several major dealers of fixed income securities exited the market via acquisition or bankruptcy. These conditions resulted, and in many cases continue to result in greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. During

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times of reduced market liquidity, HIO may not be able to sell securities readily at prices reflecting the values at which the securities are carried on HIO s books. Sales of large blocks of securities by market participants, such as HIO, that are seeking liquidity can further reduce security prices in an illiquid market. These market conditions may make valuation of some of HIO s securities uncertain and/or result in sudden and significant valuation increases or decreases in its holdings. Illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on HIO Common Shares.

Furthermore, because of the current conditions in the credit markets, issuers of fixed income securities may be subject to increased costs associated with incurring debt, tightening underwriting standards and reduced liquidity generally. The worsening general economic conditions have materially and adversely impacted the broader financial and credit markets and have reduced the availability of debt and equity capital for the market as a whole. The reduced willingness of some lenders to extend credit, in general, may make it more difficult for issuers of Senior Loans and Second Lien Loans to finance their operations. These developments have adversely affected the broader economy, and may continue to do so, which in turn may adversely affect the ability of issuers of securities owned by HIO to make payments of principal and interest when due, lead to lower credit ratings and increased defaults. Such developments could, in turn, reduce the value of securities owned by HIO and adversely affect the net asset value of HIO Common Shares.

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INFORMATION ABOUT THE PROPOSED MERGER

The Agreement and Plan of Merger

The following is a summary of the material terms and conditions of the Agreement and Plan of Merger. This summary is qualified in its entirety by reference to the form of Agreement and Plan of Merger attached as Appendix A to this Proxy Statement/Prospectus. Under the Agreement and Plan of Merger, MHY will merge with and into HIO on the Closing Date. As a result of the Merger and on the Closing Date:

- MHY will no longer exist, and
- HIO will be the surviving corporation

MHY will then:

- deregister as an investment company under the 1940 Act,
- cease its separate existence under Maryland law,
- remove its Common Shares from listing on the NYSE, and
- withdraw from registration under the Securities Exchange Act of 1934, as amended.

Each outstanding MHY Common Share will be converted into an equivalent dollar amount (to the nearest one tenth of one cent) of full HIO Common Shares, based on the net asset value per share of each of the parties at 4:00 p.m. Eastern Time on the business day prior to the Closing Date. No fractional HIO Common Shares will be issued to the holders of MHY Common Shares. In lieu thereof, HIO will pay cash to each former holder of MHY Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger.

No sales charge or fee of any kind will be charged to holders of MHY Common Shares in connection with their receipt of HIO Common Shares in the Merger.

From and after the Closing Date, HIO will possess all of the properties, assets, rights, privileges and powers and shall be subject to all of the restrictions, liabilities, obligations, disabilities and duties of MHY, all as provided under Maryland law.

Under Maryland law, stockholders of a corporation whose shares are traded publicly on a national securities exchange, such as the Funds Common Shares, are not entitled to demand the fair value of their shares upon a merger; therefore, the holders of the Funds Common Shares will be bound by the terms of the Merger, if approved. However, any holder of either Fund s Common Shares may sell his or her Common Shares on the NYSE at any time prior to the Merger.

The Agreement and Plan of Merger may be terminated and the Merger abandoned, whether before or after approval by MHY s stockholders, at any time prior to the Closing Date by resolution of either Fund s Board, if circumstances should develop that, in the opinion of that Board, make proceeding with the Merger inadvisable with respect to HIO or MHY, respectively.

Prior to the Merger, MHY shall have declared and paid a dividend or dividends which, together with all such previous dividends, shall have the effect of distributing to MHY s stockholders substantially all of its net investment income that has accrued through the Closing Date, if any, and substantially all of its net capital gain realized through the Closing Date, if any. Any dividend paid to MHY stockholders will be taxable to such stockholders.

The Agreement and Plan of Merger provides that either Fund may waive compliance with any of the terms or conditions made therein for the benefit of that Fund, other than the requirements that: (a) the Agreement and Plan of Merger be approved by stockholders of HIO and MHY; and (b) MHY and HIO receive the opinion of Simpson Thacher & Bartlett LLP that the transactions contemplated by the Agreement and Plan of Merger will constitute a tax-free reorganization for federal income tax purposes, if, in the judgment of the Fund s Board, after consultation with Fund counsel, such waiver will not have a material adverse effect on the benefits intended to be provided by the Merger to the stockholders of the Fund.

Under the Agreement and Plan of Merger, each Fund, out of its assets and property, will indemnify and hold harmless the other Fund and the members of the Board and officers of the other Fund from and against any and all losses, claims,

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damages, liabilities or expenses (including, without limitation, the payment of reasonable legal fees and reasonable costs of investigation) to which the other Fund and those board members and officers may become subject, insofar as such loss, claim, damage, liability or expense (or actions with respect thereto) arises out of or is based on (a) any breach by the Fund of any of its representations, warranties, covenants or agreements set forth in this Agreement or (b) any act, error, omission, neglect, misstatement, materially misleading statement, breach of duty or other act wrongfully done or attempted to be committed by the Fund or the members of the Board or officers of the Fund prior to the Closing Date, provided that such indemnification by the Fund is not (i) in violation of any applicable law or (ii) otherwise prohibited as a result of any applicable order or decree issued by any governing regulatory authority or court of competent jurisdiction. In no event will a Fund or the members of the Board or officers of a Fund be indemnified for any losses, claims, damages, liabilities or expenses arising out of or based on conduct constituting willful misfeasance, bad faith, gross negligence or the reckless disregard of duties.

The Board of each Fund, including the Independent Directors, has determined, with respect to its Fund, that the interests of the holders of that Fund s Common Shares will not be diluted as a result of the Merger and that participation in the Merger is in the best interests of that Fund. LMPFA, or an affiliate thereof, will bear half the costs of the Merger, whether or not the Merger is consummated. Such expenses shall also include, but not be limited to, all costs related to the preparation and distribution of this Proxy Statement/Prospectus, proxy solicitation expenses, SEC registration fees and NYSE listing fees.

Approval of the Agreement and Plan of Merger requires the affirmative vote of a majority of the outstanding MHY Common Shares and HIO Common Shares. See Voting Information below.

Reasons for the Merger and Board Considerations

Board Considerations

The Funds may be deemed affiliated investment companies as a result of LMPFA and Western Asset serving as each Fund s investment advisers. In connection with a merger of affiliated investment companies, Rule 17a-8 requires the board of each affiliated investment company, including a majority of the directors who are not interested persons of the investment company, to determine that (1) participation in the transaction is in the best interests of the investment company, and (2) the interests of the existing stockholders of the investment company will not be diluted as a result of the transaction.

Moreover, Rule 17a-8 requires that the directors request and evaluate such information as may reasonably be necessary to make their findings. Rule 17a-8 does not specify the factors to be considered in making the findings required by the rule. The SEC has recommended that boards consider the following factors, in addition to any others that may be appropriate under the circumstances:

- any fees or expenses that will be borne directly or indirectly by the fund in connection with the merger (Factor 1);
- any effect of the merger on annual fund operating expenses and stockholder fees and services (Factor 2);
- any change in the fund s investment objectives, policies and restrictions that will result from the merger (Factor 3); and
- any direct or indirect federal income tax consequences of the transaction to fund stockholders (Factor 4).

The Merger was presented to the Board of each Fund for consideration at simultaneous in-person meetings held on November 11-12, 2015 (together, the Meeting), and was approved by both Boards at that meeting. LMPFA at the meeting expressed its belief that the Merger would be in the best interests of each Fund and provided information and analyses (the Merger Evaluation Information) sufficient in LMPFA s belief for each Board to evaluate the Merger. In considering the Merger, with the advice of counsel to the Independent Members, the Boards considered the factors noted above in light of LMPFA s belief that the Merger would be in the best interests of each Fund and the Merger Evaluation Information, including the following:

Factor 1

Half of the expense associated with the Merger will be paid by LMPFA, or an affiliate thereof.

HIO Common Shares may experience near term price volatility as a result of the Merger.

Factor 2

It is anticipated that MHY s shareholders total expense ratio will decline by 0.05% and HIO s shareholders total expense ratio will decline by 0.01% as a result of the Merger.

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The stockholders of each Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base

The stockholders of each Fund may benefit from enhanced market liquidity.

The combined Fund may benefit from potential cost savings from better trade executions as a result of increased trading liquidity and tighter spreads.

The stockholders of each Fund may benefit from a more streamlined high yield product offering, allowing for more focused marketing and stockholder servicing efforts.

MHY and HIO have identical investment management fees of 0.80%, while having substantially similar investment performance, with MHY returning -7.00%, 2.66%, 5.51% and 6.00%, and HIO returning -6.90%, 2.67%, 5.61% and 6.02%.

Factor 3

MHY and HIO have virtually identical investment objectives and substantially similar investment policies.

The stockholders of each Fund may benefit from additional diversification from a larger pool of assets.

Factor 4

The Merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Assuming the Merger qualifies for such treatment, MHY stockholders generally will not recognize a gain or loss for federal income tax purposes as a result of the Merger. MHY stockholders may, however, recognize gain or loss with respect to any cash those stockholders receive pursuant to the Merger in lieu of fractional shares.

The combined Fund will have a total tax loss carryforward of $123.5 million.

MHY stockholders may benefit from the capital loss carryforward of HIO.

HIO stockholders may benefit from the capital loss carryforward of MHY, as some of MHY s capital loss carryforward will move to the combined Fund, although an estimated 69% ($42.4 million) of MHY s capital loss carryforward will expire unutilized due to the tax limitations imposed by the reorganization. Additionally, any capital losses recognized after the reorganization attributable to depreciation in MHY s portfolio at the time of the reorganization will also be subject to the annual limitation on losses and may result in a greater amount of the capital loss carryforward expiring unutilized.

Following extensive discussions, based on its evaluation of the above factors in light of the Merger Evaluation Information and of any other factors regarded by the Board as relevant in the exercise of its business judgment, including those described above, the Board of each Fund, including all of the Independent Directors, determined, with respect to each Fund, that: (1) the Merger would be in the best interests of such Fund; and (2) the Merger would not result in the dilution of the interests of such Fund or its stockholders. The Boards did not identify a single factor or piece of Merger Evaluation Information as all determinative or controlling. As a result, each Board approved the Agreement and Plan of Merger, subject to approval by stockholders

Federal Income Tax Consequences

The following is a summary of the material federal income tax consequences of the Merger applicable to a holder of MHY Common Shares that receives HIO Common Shares in the Merger. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, judicial authorities, published positions of the Internal Revenue Service (the IRS) and other applicable authorities, all as currently in effect and all of which are subject to change or differing interpretations (possibly with retroactive effect). This discussion is limited to U.S. holders (as defined below) that hold their MHY Common Shares as capital assets for federal income tax purposes (generally, assets held for investment). This discussion does not address all of the tax consequences that may be relevant to a particular MHY stockholder or to MHY stockholders that are subject to special treatment under federal income tax laws.

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This discussion does not address the tax consequences of the Merger under state, local or foreign tax laws. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

Holders of MHY Common Shares are urged to consult with their own tax advisors as to the tax consequences of the Merger in their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of changes in those laws.

For purposes of this section, the term U.S. holder means a beneficial owner of MHY Common Shares that for federal income tax purposes is:

- an individual citizen or resident of the United States;

- a corporation, or other entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia;

- an estate that is subject to federal income tax on its income regardless of its source; or

- a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a court within the United States, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for federal income tax purposes.

Tax Consequences of the Merger Generally

MHY and HIO intend the Merger to qualify as a tax-free reorganization within the meaning of Section 368(a)(1) of the Code. The Merger is conditioned upon the receipt by both MHY and HIO of an opinion from Simpson Thacher & Bartlett LLP to the effect that, based upon certain facts, assumptions and representations of the parties, for federal income tax purposes:

(i) the Merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Code and that MHY and HIO will each be a party to a reorganization within the meaning of Section 368(b) of the Code;

(ii) except for consequences regularly attributable to a termination of MHY s taxable year, no gain or loss will be recognized by MHY as a result of the Merger or upon the conversion of MHY Common Shares into HIO Common Shares;

(iii) no gain or loss will be recognized by HIO as a result of the Merger or upon the conversion of MHY Common Shares into HIO Common Shares;

(iv) no gain or loss will be recognized by the holders of MHY Common Shares upon the conversion of their MHY Common Shares into HIO Common Shares, except to the extent such holders are paid cash in lieu of fractional HIO Common Shares in the Merger;

(v) the tax basis of MHY assets in the hands of HIO will be the same as the tax basis of such assets in the hands of MHY immediately prior to the consummation of the Merger;

(vi) immediately after the Merger, the aggregate tax basis of the HIO Common Shares received by each holder of MHY Common Shares in the Merger (including that of fractional share interests purchased by HIO) will be equal to the aggregate tax basis of the MHY Common Shares owned by such holder immediately prior to the Merger;

(vii) a stockholder s holding period for HIO Common Shares (including that of fractional share interests purchased by HIO) will be determined by including the period for which such stockholder held MHY Common Shares converted pursuant to the Merger, provided that such MHY Common Shares were held by such stockholder as capital assets;

(viii) HIO s holding period with respect to the MHY assets transferred pursuant to the Merger will include the period for which such assets were held by MHY; and

(ix) the payment of cash to the holders of MHY Common Shares in lieu of fractional HIO Common Shares will be treated as though such fractional shares were distributed as part of the Merger and then redeemed by HIO with the result

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that the holder of MHY Common Shares will generally have a capital gain or loss to the extent the cash distribution differs from such stockholder s basis allocable to the fractional HIO Common Shares.

Assuming that, in accordance with the opinion referred to above, the Merger qualifies as a reorganization within the meaning of Section 368(a)(1) of the Code, the Merger will result in the tax consequences described above in clauses (i) through (ix).

Information Reporting and Backup Withholding

Cash payments received in lieu of fractional HIO Common Shares by a U.S. holder will generally be subject to information reporting unless the holder is an exempt recipient. In addition, backup withholding at a rate of 28% may apply to the cash payable to a U.S. holder, unless the holder furnishes its taxpayer identification number (in the case of individuals, their social security number) and otherwise complies with applicable requirements of the backup withholding rules, or the holder otherwise establishes an exemption. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s federal income tax liability, provided the required information is timely furnished to the IRS.

Reporting Requirements

A holder of MHY Common Shares who receives HIO Common Shares as a result of the Merger will be required to retain records pertaining to the Merger. Each holder of MHY Common Shares who is required to file a U.S. tax return and who is a significant holder that receives HIO Common Shares in the Merger will be required to file a statement with the holder s federal income tax return setting forth certain information, including such holder s basis in and the fair market value of such holder s MHY Common Shares surrendered in the Merger. A significant holder is a holder of MHY Common Shares who, immediately before the Merger, owned (i) at least 5% of the outstanding stock of MHY or (ii) securities of MHY with a tax basis of $1,000,000 or more. Holders of MHY Common Shares should consult with their own tax advisors regarding the application of these reporting requirements.

Other Tax Considerations

While neither HIO nor MHY is aware of any adverse state or local tax consequences of the Merger, they have not requested any ruling or opinion with respect to such consequences, and stockholders should consult their own tax advisor with respect to such matters.

Immediately prior to the Closing Date, MHY, to the extent necessary, will pay a dividend or dividends, which together with all previous dividends, are intended to have the effect of distributing to its stockholders substantially all of its net investment income that has accrued through the Closing Date, if any, and substantially all of its net capital gain, if any, realized through the Closing Date. Such dividends will be included in the taxable income of the stockholders of MHY.

Information Regarding Tax Capital Loss Carryforwards

Federal income tax law permits a regulated investment company to carry forward its net capital losses generated in taxable years beginning after December 22, 2010 (Post-2010 Losses) for an unlimited period. Federal income tax law also permits a regulated investment company to carry forward capital losses generated in taxable years beginning on or prior to December 22, 2010 (Pre-2011 Losses) for a period of up to eight taxable years, provided that such loss carryovers are utilized only after the full utilization of all Post-2010 Losses.

The Merger will cause the taxable year of MHY to close, which will accelerate the schedule for expiration of its carryovers of Pre-2011 Losses, and could also result in a net capital loss for the taxable year ending on the Closing Date. Because HIO has a carryover of Post-2010 Losses, the Merger may also delay the utilization of each Fund s Pre-2011 Losses, which may only be utilized after the full utilization of all Post-2010 Losses. In addition, the Merger is expected to result in a limitation on HIO s ability to use carryovers of MHY and, potentially, to use unrealized capital losses inherent in the tax bases of the assets acquired, if realized within five years following the Merger. Those limitations, imposed by Section 382 of the Code, will apply if, as expected, the stockholders of MHY own less than 50% of HIO immediately after the Merger, and will be imposed on an annual basis. The annual Section 382 limitation for periods following the Merger generally will equal the product of the net asset value of MHY immediately prior to the Merger and the long-term tax-exempt rate, published by the Internal Revenue Service, in effect at the time of the Merger.

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As of their most recent fiscal year ends, the Funds are entitled to capital loss carryovers for federal income tax purposes in the amounts set forth below:

	MHY (as of February 28, 2015)		HIO (as of September 30, 2015)	
	Amount of Carryforward	Fiscal Year of Expiration Prior to Merger	Amount of Carryforward	Fiscal Year of Expiration Prior to Merger
	$ (3,750,476)	No Expiration[(1)]	$ (24,092,664)	No Expiration[(1)]
	(6,640,949)	2/28/2017	(2,157,094)	9/30/2016
	(35,714,593)	2/28/2018	(17,968,287)	9/30/2017
	(5,212,866)	2/28/2019	(49,024,877)	9/30/2018
			(11,684,123)	9/30/2019
Total	$ (51,318,884)		$ (104,927,045)	

(1) Both Funds are permitted to carry forward these capital losses for an unlimited period. However, these losses will be required to be utilized prior to their other capital losses with the expiration dates listed above. As a result of this ordering rule, the other capital losses may be more likely to expire unutilized. Additionally, these capital losses retain their character as either short-term or long-term capital losses rather than being considered all short-term as are the Funds other capital losses listed above.

MHY

Based on the recent data referred to above, the Merger would impact the use of MHY s capital loss carryovers in the following manner: (1) the expiration date of the Pre-2011 Losses would be accelerated by one year and realigned to the year of HIO; for example, the carryovers due to expire on February 28, 2018 would expire on September 30, 2016; (2) the Pre-2011 Losses would not be available to be utilized until all Post-2010 Losses of HIO have been used; (3) MHY s carryovers would benefit the stockholders of the combined Fund, rather than only the stockholders of MHY; and (4) the aggregate amount of the carryovers that could be utilized in any taxable year would be limited to the product of the long-term tax-exempt rate at the time of the Merger and the net asset value of MHY at that time (approximately $5,963,493 per year based on data as of a recent date).

Based on such data, the combination of the above referenced limitations on the use of loss carryovers would result in some portion (approximately $42,400,000 based on data as of a recent date) of MHY s loss carryovers expiring unused. It should be noted that there would be no assurances that MHY would be able to use such losses in the absence of the Merger. Additionally, MHY stockholders may benefit from the use of HIO s capital loss carryovers by the combined Fund after the Merger.

HIO

Based on the recent data referred to above, the Merger would impact the use of HIO s capital loss carryovers by benefiting the stockholders of the combined Fund, rather than only the stockholders of HIO.

Information Applicable to Both Funds

The capital loss carryovers and limitations described above may change significantly between now and the Closing Date. Further, the ability of each Fund to use loss carryovers (even in the absence of the Merger) depends on factors other than loss limitations, such as the future realization of capital gains or losses. The effect of the combination of these factors on the use of loss carryovers may result in some portion of the Pre-2011 Losses of either or both of the Funds expiring unused. This may result in stockholders paying more taxes or paying taxes sooner than they otherwise would if the Merger did not occur.

PORTFOLIO SECURITIES

The securities in which MHY may invest are permissible for investment under HIO s investment objectives and strategies. Based on current market conditions which may change, LMPFA estimates that the Funds will not experience any significant portfolio turnover in connection with the Merger.

No securities of HIO need to be sold in order for HIO to comply with its investment restrictions or policies. The Funds may buy and sell securities in the normal course of their operations.

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INFORMATION ABOUT MANAGEMENT OF THE FUNDS

Information About Directors and Officers

The overall management of the business and affairs is vested in the Board of Directors of each Fund. In accordance with each Fund s charter, each Board of Directors is divided into three classes: Class I, Class II and Class III. Each Board approves all significant agreements between such Fund and persons or companies furnishing services to the Fund. The day-to-day operation of the Fund is delegated to the officers of each Fund, LMPFA and Western Asset, subject always to the investment objectives, restrictions and policies of each Fund and to the general supervision of the Board. The following table provides information concerning the Directors of each Fund.

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex(1) Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
Robert D. Agdern c/o Chairman of the Fund Legg Mason & Co., LLC (Legg Mason & Co.) 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1950	Director and Member of Nominating and Audit Committees; Class II (MHY), Class I (HIO)	Since 2015 (MHY), Since 2015 (HIO)	Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University (since 2002); Deputy General Counsel responsible for western hemisphere matters for BP PLC from 1999 to 2001; Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments from 1993 to 1998 (Amoco merged with British Petroleum in 1998 forming BP PLC)	31	None
Carol L. Colman c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018	Director and Member of Nominating and Audit Committees; Class I (MHY), Class I (HIO)	Since 2007 (MHY), Since 2007 (HIO)	President, Coleman Consulting Co.	31	None

Birth Year: 1946

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Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex[(1)] Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
Daniel P. Cronin c/o Chairman of the Fund Legg Mason & Co., LLC 620 Eighth Avenue New York, NY 10018 Birth Year: 1946	Director and Member of Audit and Nominating Committees; Class II (MHY), Class I (HIO)	Since 2007 (MHY), Since 2007 (HIO)	Retired; formerly, Associate General Counsel, Pfizer, Inc.	31	None
Paolo M. Cucchi c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1941	Director and Member of Nominating and Audit Committees; Class III (MHY), Class II (HIO)	Since 1993 (MHY), Since 2007 (HIO)	Emeritus Professor of French and Italian at Drew University (since 2014); formerly, Professor of French and Italian at Drew University (2009 to 2014); Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)	31	None
Leslie H. Gelb c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1937	Director and Member of Nominating and Audit Committees; Class I (MHY), Class III (HIO)	Since 2008 (MHY), Since 2007 (HIO)	President Emeritus and Senior Board Fellow, The Council on Foreign Relations (since 2003); formerly, President, The Council on Foreign Relations (prior to 2003); formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times	31	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994); Director, Encyclopedia Brittanica; Director, Centre Partners IV and V, LP and Affiliates
William R. Hutchinson c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018	Director and Member of Audit and Nominating Committees; Class III (MHY), Class III (HIO)	Since 2001 (MHY), Since 2007 (HIO)	President, W.R. Hutchinson & Associates Inc. (consulting)	31	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc-Corp. (since 1994)

Birth year: 1942

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Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex[1] Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
Eileen Kamerick c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1958	Director and Member of Nominating and Audit Committees; Class III (MHY), Class II (HIO)	Since 2013 (MHY), Since 2013 (HIO)	Executive Vice President and Chief Financial Officer, ConnectWise, Inc. (software and services company) (since 2015) and Adjunct Professor, Washington University in St. Louis and University of Iowa law schools (since 2014); formerly, CFO, Press Ganey Associates (health care informatics company) (since 2012); formerly Managing Director and CFO, Houlihan Lokey (international investment bank) (2010 to 2012)	31	Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (since 2003)
Riordan Roett c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1938	Director and Member of Nominating and Audit Committees; Class I (MHY), Class III (HIO)	Since 2008 (MHY), Since 2007 (HIO)	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973)	31	None

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Name, Address and Age	**Position(s) Held with the Funds**	**Length of Term Served**	**Principal Occupation(s) During Past 5 Years**	**Number of Portfolios in Fund Complex(1) Overseen by Nominee (Including the Fund)**	**Other Directorships Held by Nominee**
Jane E. Trust[2] Legg Mason & Co. 100 International Drive Baltimore, MD 21202 Birth year: 1962	Chairman, CEO, President and Director Class II (MHY), Class II (HIO)	Since 2015 (MHY), Since 2015 (HIO)	Managing Director of Legg Mason & Co. (since 2015); Officer and/or Trustee/Director of 157 funds associated with LMPFA or its affiliates (since 2015); Senior Vice President of LMPFA (since April 2015). Formerly, Director of ClearBridge, LLC (formerly, Legg Mason Capital Management, LLC) (2007 to 2014); Managing Director of Legg Mason Investment Counsel & Trust Co. (2000 to 2007)	147	None

(1) The term Fund Complex means two or more registered investment companies that:
   (a) hold themselves out to investors as related companies for purposes of investment and investor services; or
   (b) have a common investment adviser or that have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

(2) Ms. Trust is an interested person as defined in the 1940 Act because she is an officer of LMPFA and certain of its affiliates.

The Directors were selected to join each Board based upon the following as to each Director: his or her character and integrity; such person s service as a board member of other funds in the Legg Mason, Inc. fund complex; such person s willingness to serve and willingness and ability to commit the time necessary to perform the duties of a Director; as to each Director other than Ms. Trust, his or her status as not being an interested person as defined in the 1940 Act; and, as to Ms. Trust, her role with Legg Mason, Inc. No factor, by itself, was controlling.

In addition to the information provided in the table included above, each Director possesses the following attributes: Mr. Agdern, experience in business and as a legal professional; Ms. Colman, experience as a consultant and investment professional; Mr. Cronin, legal and managerial experience; Mr. Cucchi, experience as a college professor and leadership experience as an academic dean; Mr. Gelb, academic and world affairs and foreign relations experience and service as a board member of other registered investment companies; Mr. Hutchinson, experience in accounting and working with auditors, consulting, business and finance and service as a board member of another highly regulated financial services company; Ms. Kamerick, experience in business and finance, including financial reporting, and service as a board member of another highly regulated financial services company; Dr. Roett, expertise in Latin and South American societies and economies and academic leadership experience; and Ms. Trust, investment management and risk oversight experience as an executive and portfolio manager and leadership roles within Legg Mason and affiliated entities. References to the qualifications, attributes and skills of the Directors are pursuant to requirements of the Securities and Exchange Commission, do not constitute holding out of the Board or any Director as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

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Security Ownership of Management

The following table provides information concerning the dollar range of equity securities owned beneficially by each Director and nominee for election as Director as of December 31, 2015:

Name of Director/Nominee	Dollar Range of Equity Securities in MHY	Dollar Range of Equity Securities in HIO	Aggregate Dollar Range of Equity Securities in all Funds Overseen by Director in Family of Investment Companies[1]
NON-INTERESTED DIRECTORS			
Robert D. Agdern	None	None	None
Carol L. Colman	None	Over $100,000	Over $100,000
Daniel P. Cronin	$10,001-$50,000	$10,001-$50,000	Over $100,000
Paolo M. Cucchi	None	None	$10,001-$50,000
Leslie H. Gelb	None	None	None
William R. Hutchinson	None	$10,001-$50,000	Over $100,000
Eileen Kamerick	None	None	$10,001-$50,000
Riordan Roett	None	$1-$10,000	$10,001-$50,000
INTERESTED DIRECTOR			
Jane E. Trust[2]	None	None	Over $100,000

(1) Family of Investment Companies means any two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for purposes of investment and investor services.

(2) Ms. Trust became a Director of each Fund, effective August 1, 2015.

At December 31, 2015, the Directors and officers of the Funds as a group beneficially owned less than 1% of the outstanding shares of each Fund s common stock.

No Director or nominee for election as Director who is not an interested person of the Funds as defined in the 1940 Act, nor any immediate family members, to the best of the Funds knowledge, had any interest in the Funds investment adviser, or any person or entity (other than the Funds) directly or indirectly controlling, controlled by, or under common control with Legg Mason as of December 31, 2015.

Director Compensation

Under the federal securities laws, and in connection with the Meeting, the Funds are required to provide to stockholders in connection with the Meeting information regarding compensation paid to the Directors by the Funds, as well as by the various other investment companies advised by LMPFA. The following table provides information concerning the compensation paid to each Director by the Funds and the Fund Complex during the calendar year ended December 31, 2014 and the total compensation paid to each Director during the fiscal years ended September 30, 2015 for HIO and February 28, 2015 for MHY. Certain of the Directors listed below are members of the Funds Audit and Nominating Committees, as well as other committees of the boards of certain other investment companies advised by LMPFA. Accordingly, the amounts provided in the table include compensation for service on all such committees. The Funds do not provide any pension or retirement benefits to Directors. In addition, no remuneration was paid during the fiscal years ended September 30, 2015 for HIO and February 28, 2015 for MHY, respectively, to Ms. Trust who is an interested person as defined in the 1940 Act.

Name of Directors	Aggregate Compensation from MHY for Fiscal Year Ended 02/28/15	Aggregate Compensation from HIO for Fiscal Year Ended 09/30/15	Total Pension or Retirement Benefits Paid as Part of Fund Expenses[1]	Total Compensation from the Funds and Fund Complex[2] for Calendar Year Ended 12/31/15	Directorships[3]
Robert D. Agdern[4]	$ 1,361	$ 7,737	$ 0	$ 278,856	31
Carol L. Colman	5,920	11,722	0	308,552	31
Daniel P. Cronin	5,920	11,722	0	308,552	31
Paolo M. Cucchi	5,272	10,492	0	276,856	31
Leslie H. Gelb	5,272	10,492	0	278,856	31
William R Hutchinson	6,441	13,038	0	361,198	31
Eileen Kamerick	6,010	12,352	0	321,401	31
Riordan Roett	5,272	10,492	0	274,854	31

(1) Pursuant to prior retirement plans, payments of $562 were made to former Directors for the fiscal year ended September 30, 2015.

(2) Fund Complex means two or more Funds (a registrant or, where the registrant is a series company, a separate portfolio of the registrant) that hold themselves out to investors as related companies for purposes of investment and investor services or have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other Funds.

(3) The numbers indicate the applicable number of investment companies in the Fund Complex overseen by that Director as of December 31, 2015.

(4) Robert D. Agdern was appointed a member of the Board of Directors of each Fund, effective January 1, 2015.

As of January 1, 2014, the Funds paid each of the Independent Trustees an annual fee of $120,000, plus $22,500 for each regularly scheduled Board meeting attended in person and $2,000 for each telephonic meeting of the Board. In addition to the payments described above, (a) the Lead Independent Director of the Board receives $35,000; (b) the chairperson of the Audit Committee receives $30,000; (c) the chairperson of the Nominating Committee receives $15,000; and (d) the chairperson of the Investment Committee receives $15,000. The following changes became effective January 1, 2015, (1) each Independent Director s annual retainer increased to $150,000, (2) the Lead Independent Director received an additional annual fee of $50,000, and (3) each member of the Audit Sub-Committee received an additional annual fee of $15,000. The following change became effective January 1, 2016, the chairperson of the Compensation Committee receives $15,000. The annual compensation, fees and expenses are allocated among all the funds in the fund complex on the basis of average net assets.

Responsibilities of the Board of MHY and HIO

The Board of Directors is responsible under applicable state law for overseeing generally the management and operations of each Fund. The Directors oversee each Fund s operations by, among other things, meeting at its regularly scheduled meetings and as otherwise needed with each Fund s management and evaluating the performance of each Fund s service providers including LMPFA, Western Asset, Western Asset Limited, the custodian and the transfer agent. As part of this process, the Directors consult with each Fund s independent auditors and with their own separate independent counsel.

The Directors review each Fund s financial statements, performance, net asset value and market price and the relationship between them, as well as the quality of the services being provided to each Fund. As part of this process, the Directors review the Fund s fees and expenses in light of the nature, quality and scope of the services being received while also seeking to ensure that each Fund continues to have access to high quality services in the future.

The Board of Directors has four regularly scheduled meetings each year, and additional meetings may be scheduled as needed. In addition, the Board has a standing Audit Committee, Nominating Committee, Investment, Performance and Pricing Committee (the Investment Committee) and Compensation Committee that meet periodically and whose responsibilities are described below. The Compensation Committee of each Fund was formed on January 1, 2016.

With respect to MHY, during the fiscal year ended February 28, 2015, the Board of Directors held four regular meetings and two special meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the

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committees for which he or she was eligible. With respect to HIO, during the fiscal year ended September 30, 2015, the Board of Directors held four regular meetings and two special meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. The Funds do not have a formal policy regarding attendance by Directors at annual meetings of stockholders.

Each of the Audit Committee, the Nominating Committee and the Investment Committee is composed of all Directors who have been determined not to be interested persons of each Fund, LMPFA, Western Asset or their affiliates within the meaning of the 1940 Act, and who are independent as defined in the New York Stock Exchange listing standards (Independent Directors), and is chaired by an Independent Director. The Board in its discretion from time to time may establish ad hoc committees.

The Board of Directors is currently comprised of nine directors, eight of whom are Independent Directors. Jane E. Trust currently serves as Chairman of the Board. Ms. Trust is an interested person of each Fund. The appointment of Ms. Trust as Chairman reflects the Board s belief that her experience, familiarity with each Fund s day-to-day operations and access to individuals with responsibility for each Fund s management and operations provides the Board with insight into each Fund s business and activities and, with her access to appropriate administrative support, facilitates the efficient development of meeting agendas that address each Fund s business, legal and other needs and the orderly conduct of board meetings. Mr. Hutchinson serves as Lead Independent Director. The Chairman develops agendas for Board meetings in consultation with the Lead Independent Director and presides at all meetings of the Board. The Lead Independent Director, among other things, chairs executive sessions of the Independent Directors, serves as a spokesperson for the Independent Directors and serves as a liaison between the Independent Directors and each Fund s management between Board meetings. The Independent Directors regularly meet outside the presence of management and are advised by independent legal counsel. The Board also has determined that its leadership structure, as described above, is appropriate in light of the size and complexity of each Fund, the number of Independent Directors (who constitute a super-majority of the Board s membership) and the Board s general oversight responsibility. The Board also believes that its leadership structure not only facilitates the orderly and efficient flow of information to the Independent Directors from management, including Western Asset and Western Asset Limited, each Fund s subadvisers, but also enhances the independent and orderly exercise of its responsibilities.

Audit Committee

Each Fund s Audit Committee is composed entirely of all of the Independent Directors: Mses. Colman and Kamerick and Messrs. Agdern, Cronin, Cucchi, Gelb, Hutchinson and Roett. Ms. Kamerick serves as the Chair of the Audit Committee and has been determined by the Board to be an audit committee financial expert. The principal functions of the Audit Committee are: to (a) oversee the scope of each Fund s audit, each Fund s accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee Charter) for their ratification, the selection, appointment, retention or termination of each Fund s independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to each Fund and certain other persons by each Fund s independent registered public accounting firm. With respect to MHY, the Audit Committee met twice during the fiscal year ended February 28, 2015. In addition, the Board of Directors most recently reviewed and adopted an Audit Committee Charter at a meeting held on February 11, 2014, a copy of which was attached as Annex A to the Fund s proxy statement dated May 22, 2014. With respect to HIO, the Audit Committee met two times during the fiscal year ended September 30, 2015. In addition, HIO s Board of Directors most recently reviewed and adopted an Audit Committee Charter at a meeting held on February 14, 2013, a copy of which was attached as Annex A to the Fund s proxy statement dated December 20, 2013.

Nominating Committee

Each Fund s Nominating Committee, the principal function of which is to select and nominate candidates for election as Directors of each Fund, is composed of all of the Independent Directors: Mses. Colman and Kamerick and Messrs. Agdern, Cronin, Cucchi, Gelb, Hutchinson and Roett. Mr. Cronin serves as the Chair of the Nominating Committee. The Nominating Committee may consider nominees recommended by the stockholder as it deems appropriate. Stockholders who wish to recommend a nominee should send recommendations to the Fund s Secretary that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors. A recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. With respect to MHY, the Nominating Committee met twice during the fiscal year ended February 28, 2015. In addition, MHY s Board of Directors most recently reviewed and adopted a Nominating Committee Charter at a meeting held on February 14, 2013, a copy of which was attached as Annex B to MHY s proxy statement dated May 24, 2013. With respect to HIO, the Nominating Committee met three times during the fiscal year ended September 30, 2015. In addition, HIO s Board of Directors most recently reviewed and adopted a Corporate Governance and Nominating Committee Charter at a meeting held on February 12, 2015, a copy of which was attached as Annex B to HIO s proxy statement dated December 23, 2015.

The Nominating Committee identifies potential nominees through its network of contacts, and in its discretion may also engage a professional search firm. The Nominating Committee meets to discuss and consider such candidates qualifications and then chooses a candidate by majority vote. The Nominating Committee does not have specific, minimum qualifications for nominees and has not established specific qualities or skills that it regards as necessary for one or more of each Fund s Directors to possess (other than any qualities or skills that may be required by applicable law, regulation or listing standard). However, as set forth in the Nominating Committee Charter, in evaluating a person as a potential nominee to serve as a Director of the Fund, the Nominee Committee may consider the following factors, among any others it may deem relevant:

- whether or not the person is an interested person as defined in the 1940 Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director of the Fund;

- whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment manager of the Fund, Fund service providers or their affiliates;

- whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes;

- whether or not the person is willing to serve, and willing and able to commit the time necessary for the performance of the duties of a Director of the Fund;

- the contribution which the person can make to the Board and the Fund (or, if the person has previously served as a Director of the Fund, the contribution which the person made to the Board during his or her previous term of service), with consideration being given to the person s business and professional experience, education and such other factors as the Committee may consider relevant;

- the character and integrity of the person; and

- whether or not the selection and nomination of the person would be consistent with the requirements of the Fund s retirement policies.

The Nominating Committee does not have a formal diversity policy with regard to the identification of potential director nominees but may consider diversity of professional experience, education and skills when evaluating potential nominees for Board membership.

Investment Committee

Each Fund s Investment Committee is composed entirely of all of the Independent Directors. The members of the Investment Committee are Mses. Colman and Kamerick and Messrs. Agdern, Cronin, Cucchi, Gelb, Hutchinson and Roett. Ms. Colman serves as Chair of each Fund s Investment Committee. The principal functions of the Investment Committee are: (a) to review and revise, with LMPFA and/or Clearbridge, the investment performance data and related reports provided to the Board, (b) to review with LMPFA the investment performance benchmarks and peer groups used in reports delivered to the Board and (c) to perform other functions as the Board may delegate from time to time. With respect to MHY, the Investment Committee met four times during the fiscal year ended February 28, 2015. With respect to HIO, the Investment

Committee met four times during the fiscal year ended September 30, 2015.

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Officers

Each Fund s executive officers are chosen each year at a regular meeting of the Board of Directors of the Fund, to hold office until their respective successors are duly elected and qualified. The same individuals serve as officers of both MHY and HIO. In addition to Ms. Trust, each Fund s Chairman, CEO and President, the executive officers of the Funds currently are:

Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Richard F. Sennett Legg Mason & Co. 100 International Drive, Baltimore, MD 21202 Birth year: 1970	Principal Financial Officer	Since 2011 (MHY), Since 2011 (HIO)	Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)
Ted P. Becker Legg Mason & Co. 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Chief Compliance Officer	Since 2006 (MHY), Since 2006 (HIO)	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)
Steven Frank Legg Mason & Co. 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1967	Treasurer	Since 2010 (MHY), Since 2010 (HIO)	Director of Legg Mason & Co. (since 2015); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (2002 to 2015); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010)

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Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Jenna Bailey Legg Mason & Co. 100 First Stamford Place, Stamford, CT 06902 Birth Year: 1978	Identity Theft Prevention Officer	Since 2015 (MHY), Since 2015 (HIO)	Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2015); Compliance Officer of Legg Mason & Co. (since 2013); Associate Compliance Officer of Legg Mason & Co. (2011-2013); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Risk Manager of U.S. Distribution of Legg Mason & Co. (2007 to 2011).
Robert I. Frenkel Legg Mason & Co. 100 First Stamford Place Stamford, CT 06902 Birth year: 1954	Secretary and Chief Legal Officer	Since 2003 (MHY), Since 2003 (HIO)	Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and Section 30(h) of the 1940 Act in combination require each Fund s Directors and principal officers, persons who own more than 10% of the Funds common stock, LMPFA and certain of its affiliates, to file reports of ownership and changes in ownership with the SEC and the NYSE. Such persons and entities are required by SEC regulations to furnish each of the Funds with copies of all such filings. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, MHY believes that, during the fiscal year ended February 28, 2015, all such filing requirements were met with respect to MHY, except, due to an administrative oversight, a late filing of an initial Form 3 was made on behalf of each of the following persons: Amy Olmert, Manager of LMPFA (Form 3 was due in April 2011); Peter Nachtwey, Manager of LMPFA (Form 3 was due in April 2011); and Barry Bilson, Director of Western Asset (Form 3 was due in September 2013). In addition, with respect to HIO and based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, HIO believes that, during the fiscal year ended September 30, 2015, all such filing requirements were met with respect to HIO.

Investment Manager and Sub-Advisers

LMPFA has served as each Fund s investment manager since August 1, 2006. LMPFA, located at 620 Eighth Avenue, New York, NY 10018, is a registered investment adviser that provides administrative and compliance oversight services to each Fund.

Under each Fund s management agreement with LMPFA (the Management Agreements), subject to the supervision and direction of each Fund s Board, LMPFA is delegated the responsibility of managing the Fund s portfolio in accordance with the Fund s stated investment objective and policies, making investment decisions for the Fund and placing orders to purchase and sell securities. LMPFA performs administrative and management services necessary for the operation of each Fund, such as (i) supervising the overall administration of the Fund, including negotiation of contracts and fees with and the monitoring of performance and billings of the Fund s transfer agent, stockholder servicing agents, custodian and other independent contractors or agents; (ii) providing certain compliance, Fund accounting, regulatory reporting, and tax reporting services; (iii) preparing or participating in the preparation of Board materials, registration statements, proxy statements and reports and other communications to stockholders; (iv) maintaining the Fund s existence, and (v) maintaining the registration and qualification of the Fund s shares under federal and state laws.

Each Fund s Management Agreement will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Fund s Board or by a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. Each Fund s Management Agreement provides that LMPFA may render services to others. Each Fund s Management Agreement is terminable without penalty on not more than 60 days nor less than 30 days written notice by the Fund when authorized either by a vote of holders of shares representing a majority of the voting power of the outstanding voting securities of the Fund (as defined in the 1940 Act) or by a vote of a majority of the Fund s Directors, or by LMPFA on not less than 90 days written notice, and will automatically terminate in the event of its assignment. Each Fund s Management Agreement provides that neither LMPFA nor its personnel shall be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the execution of security transactions for the Fund, except for willful misfeasance, bad faith or gross negligence or reckless disregard of its or their obligations and duties.

LMPFA does not provide day-to-day portfolio management services. Rather, portfolio management for each Fund is provided by Western Asset, located at 385 East Colorado Boulevard, Pasadena, California 91101.

Western Asset provides services to each Fund pursuant to a sub-advisory agreement between LMPFA and Western Asset (the Western Asset Sub-Advisory Agreements). Under each Western Asset Sub-Advisory Agreement, subject to the supervision and direction of each Fund s Board and LMPFA, Western Asset will manage the Fund s portfolio in accordance with the Fund s stated investment objective and policies, assist in supervising all aspects of the Fund s operations, make investment decisions for the Fund, place orders to purchase and sell securities, and employ professional portfolio managers and securities analysts who provide research services to the Fund.

The Western Asset Sub-Advisory Agreements will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Board or by a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. The Board or a majority of the outstanding voting securities of each Fund (as defined in the 1940 Act) may terminate that Western Asset Sub-Advisory Agreement without penalty, in each case on not more than 60 days nor less than 30 days written notice to Western Asset. Western Asset may terminate each Western Asset Sub-Advisory Agreement on 90 days written notice to each Fund and LMPFA. LMPFA and Western Asset may terminate each Western Asset Sub-Advisory Agreement upon their mutual written consent. Each Western Asset Sub-Advisory Agreement will terminate automatically in the event of assignment by Western Asset and shall not be assignable by LMPFA without the consent of Western Asset.

Western Asset Limited provides certain sub-advisory services to each Fund pursuant to a sub-advisory agreement dated October 9, 2006 (the Limited Sub-Advisory Agreement and, together with the Western Asset Sub-Advisory Agreements, the Sub-Advisory Agreements). Western Asset Limited was founded in 1984 and has offices at 10 Exchange Square, Primrose Street, London EC2A2EN. Western Asset Limited is responsible, generally, for managing Asian (excluding Japan), Japanese and global and non-U.S. dollar fixed income mandates including the related portions of Western Asset s broader portfolios, as well as servicing these relationships. It undertakes all investment-related activities including investment management, research and analysis, securities settlement and client services. While Western Asset remains ultimately responsible for investment decisions relating to the Funds portfolio, Western Asset Limited provides certain sub-advisory services to the Funds relating to currency transactions and investments in non-U.S. dollar-denominated securities and related foreign currency instruments.

The Limited Sub-Advisory Agreements will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Board or by a majority of the outstanding voting securities of the Fund (as

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defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. The Board or a majority of the outstanding voting securities of each Fund (as defined in the 1940 Act) may terminate each Limited Sub-Advisory Agreement without penalty, in each case on not more than 60 days nor less than 30 days written notice to Western Asset Limited. Western Asset Limited may terminate the Limited Sub-Advisory Agreement on 90 days written notice to the Fund and Western Asset. Western Asset and Western Asset Limited may terminate the Limited Sub-Advisory Agreement upon their mutual written consent. The Limited Sub-Advisory Agreement will terminate automatically in the event of assignment by Western Asset Limited and shall not be assignable by Western Asset without the consent of Western Asset Limited.

MHY currently pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of MHY s average daily net assets. HIO currently pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of HIO s average daily net assets. The total dollar amounts paid to LMPFA under the Management Agreements with each Fund for the last three fiscal years are as follows:

	MHY	HIO
2013	2,270,844	3,984,540
2014	2,351,174	4,338,092
2015	2,312,721	4,014,605
Total	$ 6,934,739	$ 12,337,237

With respect to each Fund, LMPFA pays sub-advisory fees to Western Asset at the rate of 70% of the management fee paid to LMPFA.

Western Asset pays Western Asset Limited a fee for its services at no additional expense to the Funds. The fee is based upon a percentage of the management fee equal to the amount of the Funds assets Western Asset allocates to Western Asset Limited to manage.

LMPFA, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason. Legg Mason, whose principal executive offices are at 100 International Drive, Baltimore, Maryland 21202, is a global asset management company.

Additional information about the factors considered by the Board of HIO in approving its Management Agreement and Sub-Advisory Agreements is set forth in HIO s Semi-Annual Report to Stockholders for the Semi-Annual Period ending March 31, 2015. Additional information about the factors considered by the Board of MHY in approving its Management Agreement and Sub-Advisory Agreements is set forth in MHY s Annual Report to Stockholders for the Fiscal Year ended February 28, 2015.

Codes of Ethics

Pursuant to Rule 17j-1 under the 1940 Act, each of the Funds, LMPFA, Western Asset and Western Asset Limited have adopted codes of ethics that permit their respective personnel to invest in securities for their own accounts, including securities that may be purchased or held by the Funds (the Codes of Ethics). All personnel must place the interests of clients first and avoid activities, interests and relationships that might interfere with the duty to make decisions in the best interests of the clients. All personal securities transactions by employees must adhere to the requirements of the applicable Codes of Ethics and must be conducted in such a manner as to avoid any actual or potential conflict of interest, the appearance of such a conflict, or the abuse of an employee s position of trust and responsibility.

When personnel covered by either Fund s Code of Ethics are employed by more than one of the managers affiliated with Legg Mason, those employees may be subject to such affiliate s Code of Ethics adopted pursuant to Rule 17j-1, rather than the Codes of Ethics of the Funds.

The Codes of Ethics of the Funds, LMPFA, Western Asset and Western Asset Limited can be reviewed and copied at the SEC s Public Reference Room in Washington, DC, that information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-551-8090, that these codes of ethics are available on the EDGAR Database on the

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SEC s Internet site at http://www.sec.gov, and that copies of these codes of ethics may be obtained, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, DC, 20549-0102.

Proxy Voting Policies

Although individual Directors may not agree with particular policies or votes by LMPFA, Western Asset, or Western Asset Limited, each Fund s Board has delegated proxy voting discretion to LMPFA and/or Western Asset, believing that LMPFA and/or Western Asset should be responsible for voting because it is a matter relating to the investment decision making process.

LMPFA delegates the responsibility for voting proxies for each Fund to Western Asset through its contracts with Western Asset. Western Asset will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the Funds. Should LMPFA become responsible for voting proxies for any reason, such as the inability of Western Asset to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained. In the case of a material conflict between the interests of LMPFA (or its affiliates if such conflict is known to persons responsible for voting at LMPFA) and either Fund, the Board of Directors of LMPFA shall consider how to address the conflict and/or how to vote the proxies. LMPFA shall maintain records of all proxy votes in accordance with applicable securities laws and regulations, to the extent that LMPFA votes proxies. LMPFA shall be responsible for gathering relevant documents and records related to proxy voting from Western Asset and providing them to the relevant Fund as required for the Fund to comply with applicable rules under the 1940 Act.

LMPFA s, Western Asset s and Western Asset Limited s Proxy Voting Policies and Procedures govern in determining how proxies relating to each Fund s portfolio securities are voted and are attached as Appendix D, Appendix E and Appendix F, respectively, to this Proxy Statement/Prospectus. Information regarding how each Fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the Fund s website at *http://www.lmcef.com* and (3) on the SEC s website at *http://www.sec.gov*.

Investment Professionals of the Funds

Below is summary information for the Funds investment professionals. Certain employees of Western Asset listed below are members of the management teams of both MHY and HIO; others are involved in the management of only one of the Funds.

Name and Address	Length of Time Served	Principal Occupation(s) During Last Five Years
S. Kenneth Leech Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2014 (MHY), Since 2014 (HIO)	Responsible for the day-to-day management with other members of the Funds portfolio management team; Chief Investment Officer of Western Asset from 1998 to 2008 and since 2014; Senior Advisor/Chief Investment Officer Emeritus of Western Asset from 2008-2013; Co- Chief Investment Officer of Western Asset from 2013-2014.
Christopher F. Kilpatrick Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2012 (MHY) Since 2012 (HIO)	Responsible for the day-to-day management with other members of the Funds portfolio management team; employed by Western Asset Management as an investment professional for at least the past five years.
Michael C. Buchanan Western Asset 385 East Colorado Blvd.	Since 2006 (MHY), Since 2006 (HIO)	Responsible for the day-to-day management with other members of the Funds portfolio management team; employed by Western Asset Management as an investment professional for at least the past five years and currently Deputy Chief Investment Officer of Western Asset; formerly, Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset

Pasadena, CA 91101	Management.

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Other Accounts Managed by Investment Professionals

The table below identifies the number of accounts (other than the Funds) for which the each Fund s investment professionals have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles and other accounts. Data for registered investment companies is based on the specific investment professionals that are named in the applicable disclosure documents. Data for other pooled investment vehicles and other accounts is based on Western Asset s practice of naming a particular individual to maintain oversight responsibility for each vehicle/account. Where the named individual has been assigned primary responsibility for oversight of another pooled investment vehicle or other account, that vehicle/account has been allocated exclusively to that individual for disclosure purposes. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated as of November 30, 2015.

Investment Professional	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
S. Kenneth Leech[1]	109 registered investment companies with $186.3 billion in total assets under management	272 other pooled investment vehicles with $86.03 billion in assets under management	624 other accounts with $173.7 billion in total assets under management
		8 other pooled investment vehicles that charge a performance fee with approximately $1.49 billion in total assets under management	57 other accounts that charge a performance fee with approximately $17.97 billion in total assets under management
Christopher F. Kilpatrick	9 registered investment companies with $3.3 billion in total assets under management	None	None
Michael Buchanan	43 registered investment companies with $39.9 billion in total assets under management	77 other pooled investment vehicles with $35.76 billion in assets under management	190 other accounts with $51.2 billion in total assets under management
		4 other pooled investment vehicles that charge a performance fee with approximately $1.15 billion in total assets under management	21 other accounts that charge a performance fee with approximately $7.87 billion in total assets under management

(1) The numbers above reflect the overall number of portfolios managed by employees of Western Asset. Mr. Leech is involved in the management of all the Firm s portfolios, but he is not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. He is responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

Investment Professional Compensation

With respect to the compensation of the investment professionals, Western Asset s compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, Western Asset s employees are eligible for bonuses. These are structured to closely align the interests of employees with those of Western Asset, and are determined by the professional s job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is an investment professional s investment performance versus appropriate peer groups and benchmarks (e.g., a securities index and with respect to a fund, the benchmark set forth in the fund s Prospectus to which the fund s average annual total returns are compared or, if none, the benchmark set forth in the fund s annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. Western Asset may also measure an investment professional s pre-tax investment performance against other benchmarks, as it determines appropriate. Because investment professionals are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated based on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to Western Asset, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to Western Asset s business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

Potential Conflicts of Interest

Conflicts of Interest. The Managers and investment professionals have interests which may conflict with the interests of the Fund. There is no guarantee that the policies and procedures adopted by the Managers and the Funds will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

Allocation of Limited Time and Attention. An investment professional who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. An investment professional may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such an investment professional may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular investment professional have different investment strategies.

Allocation of Limited Investment Opportunities; Aggregation of Orders. If an investment professional identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund s ability to take full advantage of the investment opportunity. Additionally, Western Asset or Western Asset Limited may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, Western Asset s or Western Asset Limited s trade allocation policies may result in a fund s orders not being fully executed or being delayed in execution.

Pursuit of Differing Strategies. At times, an investment professional may determine that an investment opportunity may be appropriate for only some of a funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of a funds and/or accounts should take differing positions with respect to a particular security. In these cases, the investment professional may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, an investment professional may determine that it would be in the interest of another account to sell a security that a fund holds long, potentially resulting in a decrease in the market value of the security held by a fund.

Cross Trades. Investment professionals may manage funds that engage in cross trades, where one of the manager s funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

Selection of Broker/Dealers. Investment professionals may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide Western Asset or Western Asset Limited with brokerage and research services. These services may be taken into account in the selection of brokers and dealers, in determination whether to select a dealer to effect a trade on a principal basis (as normally is the case for the funds) or determination whether to select a broker to effect a trade on an agency basis for a commission. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the Managers funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to an investment professional differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager s management fee and/or an investment professional s compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the investment professional might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the investment professional s performance record or to derive other rewards, financial or otherwise, could influence the investment professional in affording preferential treatment to those funds and/or accounts that could most significantly benefit the investment professional. An investment professional may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, an investment professional s or the Managers desire to increase assets under management could influence the investment professional to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the investment professional might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if an investment professional does not personally hold an investment in a particular fund, the investment professional s conflicts of interest with respect to such fund be more acute.

Related Business Opportunities. LMPFA or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, an investment professional may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the Manager and its affiliates.

An investment professional may also face other potential conflicts of interest in managing the Fund, and the description above is not a complete description of every conflict of interest that could be deemed to exist in managing both the Fund and the other funds and accounts listed above.

Investment Professional Securities Ownership

The table below identifies the dollar range of securities beneficially owned by the investment professionals of each Fund as of November 30, 2015.

Investment Professional	Dollar Range of HIO Securities Beneficially Owned	Dollar Range of MHY Securities Beneficially Owned	Aggregate dollar Range of Fund Securities Beneficially Owned
Kenneth Leech	None	None	None
Michael C. Buchanan	None	None	None
Christopher F. Kilpatrick	None	None	None

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ADDITIONAL INFORMATION ABOUT THE FUNDS

Legg Mason, Western Asset and Western Asset Limited have a financial interest in the Merger because their respective fees under agreements with HIO generally are higher than under the agreement with MHY and increase as the assets of HIO increase. HIO s assets will increase as a result of the Merger (although this increase in assets is expected to be offset by the concomitant loss of MHY s assets and the related fees).

Further information about HIO is included in HIO s Annual Report to Stockholders for the Fiscal Year Ended September 30, 2015, filed with the SEC on November 24, 2015 (accession no. 0001193125-15-386792), and MHY s Annual Report to Stockholders for the Fiscal Year Ended February 28, 2015, filed with the SEC on April 17, 2015 (accession no. 0001193125-15-135519). Copies of these documents, the SAI related to this Proxy Statement/Prospectus and any subsequently released stockholder reports are available upon request and without charge, by writing to the Funds at 620 Eighth Avenue, New York, New York 10041, by visiting the Funds website at www.lmcef.com or by calling the Funds at 888-777-0102.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith, file reports and other information including proxy material, reports and charter documents with the SEC. These reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, NE, Washington, DC 20549. Reports and other information about each Fund are available on the Edgar Database on the SEC s website at www.sec.gov. Copies of such material can also be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services, SEC, 100 F Street, NE, Washington, DC 20549 at prescribed rates. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090.

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Financial Highlights

The financial highlights tables are intended to help you understand the performance of each Fund for the past five years. Certain information reflects financial results for a single share. Total return represents the rate that a stockholder would have earned (or lost) on a Fund share assuming reinvestment of all dividends and distributions. The information in the following tables has been derived from the Funds financial statements. The financial statements of HIO for the fiscal years ended 2011, 2012, 2013, 2014 and 2015 and the financial statements of MHY for the fiscal years ended 2011, 2012, 2013, 2014 and 2015 have been audited by KPMG LLP (KPMG), an independent registered public accounting firm, whose reports, along with the Funds financial statements, are included in the Funds annual reports (available upon request).

Financial Highlights for HIO (Acquiring Fund)

For a share of capital stock outstanding throughout each year ended September 30:

	2015[1]	2014[1]	2013[1]	2012[1]	2011[1]
Net asset value, beginning of year	$6.31	$6.36	$6.26	$5.76	$6.10
Income (loss) from operations:					
Net investment income	0.41	0.43	0.45	0.49	0.50
Net realized and unrealized gain (loss)	(0.82)	(0.04)	0.13	0.52	(0.31)
Total income (loss) from operations	***(0.41)***	***0.39***	***0.58***	***1.01***	***0.19***
Less distributions from:					
Net investment income	(0.43)	(0.44)	(0.48)	(0.51)	(0.53)
Total distributions	***(0.43)***	***(0.44)***	***(0.48)***	***(0.51)***	***(0.53)***
Net asset value, end of year	$5.47	$6.31	$6.36	$6.26	$5.76
Market price, end of year	$4.69	$5.79	$5.97	$6.65	$5.78
Total return, based on NAV[2,3]	***(6.90)%***	***6.17%***	***9.49%***	***18.15%***	***2.81%***
Total return, based on Market Price[4]	***(12.21)%***	***4.28%***	***(3.07)%***	***25.00%***	***0.37%***
Net assets, end of year (millions)	$457	$528	$532	$473	$433
Ratios to average net assets:					
Gross expenses	0.89%	0.88%	0.90%	0.88%	0.89%
Net expenses	0.89	0.88	0.90	0.88	0.89
Net investment income	6.88	6.68	7.04	8.17	7.98
Portfolio turnover rate	59%	37%	53%	53%	68%

1. Per share amounts have been calculated using the average shares method.

2. 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.

3. The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

4. The total return calculation assumes that distributions are reinvested in accordance with HIO s dividend reinvestment plan. Past performance is no guarantee of future results.

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Financial Highlights for MHY (Target Fund)

For a share of capital stock outstanding throughout each year ended February 28, unless otherwise noted:

	2015[1]	**2014[1]**	**2013[1]**	**2012[1,2]**	**2011[1]**
Net asset value, beginning of year	$6.30	$6.24	$5.94	$6.24	$5.77
Income (loss) from operations:					
Net investment income	0.41	0.44	0.47	0.48	0.52
Net realized and unrealized gain (loss)	(0.42)	0.07	0.32	(0.25)	0.54
Total income (loss) from operations	***(0.01)***	***0.51***	***0.79***	***0.23***	***1.06***
Less distributions from:					
Net investment income	(0.42)	(0.45)	(0.49)	(0.53)	(0.59)
Total distributions	***(0.42)***	***(0.45)***	***(0.49)***	***(0.53)***	***(0.59)***
Net asset value, end of year	$5.87	$6.30	$6.24	$5.94	$6.24
Market price, end of year	$5.26	$5.83	$6.30	$6.21	$6.27
Total return, based on NAV[3,4]	***(0.24)%***	***8.47%***	***13.94%***	***4.12%***	***19.31%***
Total return, based on Market Price[5]	***(2.74)%***	***(0.05)%***	***9.93%***	***8.32%***	***14.91%***
Net assets, end of year (millions)	$277	$297	$294	$279	$291
Ratios to average net assets:					
Gross expenses	0.92%	0.93%	0.91%	0.92%	0.92%
Net expenses[6]	0.92	0.93	0.91	0.92	0.92
Net investment income	6.69	7.03	7.76	8.15	8.75
Portfolio turnover rate	39%	48%	50%	54%	96%

1 Per share amounts have been calculated using the average shares method.

2 For the year ended February 29.

3 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.

4 The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

5 The total return calculation assumes that distributions are reinvested in accordance with MHY s dividend reinvestment plan. Past performance is no guarantee of future results.

6 The impact of compensating balance arrangements, if any, was less than 0.01%.

Net Asset Value, Market Price and Premium/Discount

Common shares of closed-end investment companies, such as the Funds, have frequently traded at a discount from net asset value, but in some cases trade at a premium. Shares of closed-end investment companies investing primarily in fixed income securities tend to trade on the basis of income yield relative to the market price of the shares and the market price may also be affected by trading volume, general market and economic conditions and other factors beyond the control of the fund. As a result, the market price of each Fund s Common Shares may be greater or less than the NAV per share. Since the commencement of each Fund s operations, each Fund s Common Shares have traded in the market at prices that were generally below NAV per share.

The following tables set forth the high and low sales prices for HIO Common Shares and MHY Common Shares on the NYSE, the NAV per share and the discount or premium to NAV per share represented by the quotation for each quarterly period during the last two calendar years.

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HIO (Acquiring Fund) Fiscal Year End is September 30

	Quarterly High Price			Quarterly Low Price		
Quarter Ended	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)
March 31, 2014	$ 6.52	$ 6.10	(6.44)%	$ 6.45	$ 5.88	(8.84)%
June 30, 2014	6.54	6.14	(6.12)	6.53	5.96	(8.73)
September 30, 2014	6.55	6.10	(6.87)	6.30	5.76	(8.57)
December 31, 2014	6.32	5.83	(7.75)	5.93	5.22	(11.97)
March 31, 2015	6.06	5.42	(10.56)	5.98	5.30	(11.37)
June 30, 2015	6.09	5.40	(11.33)	5.94	5.10	(14.14)
September 30, 2015	5.95	5.21	(12.42)	5.62	4.63	(17.62)
December 31, 2015	5.55	4.90	(11.71)	5.25	4.43	(15.62)

MHY (Target Fund) Fiscal Year End is February 28

	Quarterly High Price			Quarterly Low Price		
Quarter Ended	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)	Net Asset Value Per Share	NYSE Price	Premium/ (Discount)
March 31, 2014	$ 6.30	$ 5.89	(6.51)%	$ 6.23	$ 5.62	(9.79)%
June 30, 2014	6.32	5.89	(6.80)	6.30	5.74	(8.89)
September 30, 2014	6.34	5.82	(8.20)	6.17	5.45	(11.67)
December 31, 2014	6.11	5.53	(9.49)	5.73	5.04	(12.04)
March 31, 2015	5.84	5.28	(9.59)	5.78	5.09	(11.94