

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-CSR

November 30, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-07920**

**Western Asset High Income Opportunity Fund Inc.**

**(Exact name of registrant as specified in charter)**

**620 Eighth Avenue, 49th Floor, New York, NY 10018**

**(Address of principal executive offices) (Zip code)**

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

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

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

**Date of fiscal year end: September 30**

**Date of reporting period: September 30, 2018**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

September 30, 2018

WESTERN ASSET

HIGH INCOME OPPORTUNITY FUND INC. (HIO)

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

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The Fund seeks high current income. Capital appreciation is a secondary objective.

In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

## Letter from the chairman

### Dear Shareholder,

We are pleased to provide the annual report of Western Asset High Income Opportunity Fund Inc. for the twelve-month reporting period ended September 30, 2018. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

October 31, 2018

II Western Asset High Income Opportunity Fund Inc.

## Investment commentary

### Economic review

Economic activity in the U.S. was mixed during the twelve months ended September 30, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that fourth quarter 2017 and first quarter 2018 U.S. gross domestic product (GDP) growth was 2.3% and 2.2%, respectively. GDP growth then accelerated to 4.2% during the second quarter of 2018—the strongest reading since the third quarter of 2014. Finally, the U.S. Department of Commerce's initial reading for third quarter 2018 GDP growth—released after the reporting period ended—was 3.5%. The deceleration in GDP growth in the third quarter of 2018 reflected a downturn in exports and a deceleration in nonresidential fixed investment. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. As reported by the U.S. Department of Labor, when the reporting period ended on September 30, 2018, the unemployment rate was 3.7%, versus 4.1% when the period began. September 2018's reading was the lowest unemployment rate since 1969. The percentage of longer-term unemployed also declined during the reporting period. In September 2018, 22.9% of Americans looking for a job had been out of work for more than six months, versus 24.8% when the period began.

Looking back, at its meeting that concluded on September 20, 2017, the Federal Reserve Board (the Fed) kept the federal funds rate<sup>iii</sup> on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program." At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As expected, the Fed kept rates on hold at its meeting that concluded on January 31, 2018. However, at its meeting that ended on March 21, 2018, the Fed again raised the federal funds rate, moving it to a range between 1.50% and 1.75%. At its meeting that concluded on June 13, 2018, the Fed raised the federal funds rate to a range between 1.75% and 2.00%. Finally, at its meeting that ended on September 26, 2018, the Fed raised the federal funds rate to a range between 2.00% and 2.25%.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

October 31, 2018

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

## Investment commentary (cont d)

<sup>i</sup> Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.

<sup>ii</sup> The Federal Reserve Board (the Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

<sup>iii</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

IV Western Asset High Income Opportunity Fund Inc.



## Fund overview

### Q. What is the Fund's investment strategy?

A. The Fund seeks high current income. Capital appreciation is a secondary objective. In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

We employ an actively managed approach that is risk-aware and incorporates top-down macroeconomic views with industry sector insights and bottom-up credit research to derive the general framework for the Fund's predominantly non-investment grade credit mandate. This framework provides the foundation for how the portfolio is positioned with respect to risk (aggressive, neutral, conservative), as well as sector overweights and underweights.

Risk and weightings are reviewed on a regular basis. Our bottom-up process provides the basis for populating the targeted industry weightings through individual credit selection. Analysts work closely with investment professionals to determine which securities provide the best risk/reward relationship within their respective sectors. The research team focuses on key fundamental measures such as leverage, cash flow adequacy, liquidity, amortization schedule, underlying asset value and management integrity/track record.

At Western Asset Management Company, LLC (formerly known as Western Asset Management Company) (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio management personnel, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are S. Kenneth Leech, Michael C. Buchanan and Christopher F. Kilpatrick.

### Q. What were the overall market conditions during the Fund's reporting period?

A. The overall fixed income market generated weak results over the twelve-month reporting period ended September 30, 2018. The spread sectors (non-Treasuries) experienced periods of volatility as they were impacted by a number of factors, including the December 2017 signing of the U.S. tax reform bill, improving growth in the U.S., four interest rate hikes by the Federal Reserve Board (the Fed), concerns over a global trade war and several geopolitical issues.

Both short- and long-term Treasury yields moved higher during the reporting period. The yield for the two-year Treasury note began the reporting period at 1.47% equaling its low for the period and ended the period at 2.81%. The high for the period of 2.83% occurred from September 24 to September 27, 2018. The yield for the ten-year Treasury began the reporting period at 2.33% and ended the period at 3.05%. The low for the period of 2.28% occurred on October 13, 2017, and the peak for the period of 3.11% took place on May 17, 2018.

## Fund overview (cont'd)

All told, the Bloomberg Barclays U.S. Aggregate Index<sup>ii</sup>, returned -1.22% for the reporting period. For comparison purposes, riskier fixed-income securities, including the high-yield bond market, produced stronger results. Over the Fund's fiscal year, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index (the Index<sup>iii</sup>) returned 3.05%. Lower quality issuers outperformed, with the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index Caa Component<sup>iv</sup>, returning 7.08% over the same timeframe.

### Q. How did we respond to these changing market conditions?

**A.** A number of adjustments were made to the Fund's portfolio during the reporting period. We increased the overall quality of the portfolio by reducing the Fund's allocations to lower rated B and CCC securities. Meanwhile, we increased the Fund's exposures to securities rated BBB and BB. Our strategy to reduce the Fund's risk exposure was not driven by a concern that the current credit cycle is turning negative, but rather that valuations have compressed to the point where, in our view, maintaining an elevated level of risk was unwarranted. From a sector perspective, we reduced the Fund's exposures to the Consumer Cyclical<sup>v</sup> and Consumer Non-Cyclicals<sup>2</sup> sectors. Conversely, we increased the Fund's positions in the Capital Goods<sup>3</sup> and Energy sectors. Elsewhere, we increased the Fund's allocation to emerging markets debt during the reporting period.

Currency forwards, which were used to manage the Fund's currency exposure, did not meaningfully impact results.

Finally, toward the end of the reporting period, rates moved higher in the U.S. as the Fed continued to increase front-end rates and deliver hawkish forward guidance. Volatility increased and we were able to add income across our closed-end funds. In addition, we felt discounts widened across fixed income closed-end funds as retail investors looked to reduce exposure creating an opportunity. Both before and after the end of the reporting period, we purchased shares of the Fund in the open market.

### Performance review

For the twelve months ended September 30, 2018, Western Asset High Income Opportunity Fund Inc. returned 2.15% based on its net asset value (NAV) and -0.84% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned 3.05% for the same period. The Lipper High Yield Closed-End Funds Category Average<sup>vi</sup> returned 3.15% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.33 per share\*. The performance table shows the Fund's twelve-month total return

<sup>1</sup> Consumer Cyclical consists of the following industries: Automotive, Entertainment, Gaming, Home Construction, Lodging, Retailers, Restaurants, Textiles and other consumer services.

<sup>2</sup> Consumer Non-Cyclicals consists of the following industries: Consumer Products, Food/Beverage, Health Care, Pharmaceuticals, Supermarkets and Tobacco.

<sup>3</sup> Capital Goods consists of the following industries: Aerospace & Defense, Building Materials, Diversified Manufacturing, Construction Machines, Packaging and Environmental.

\* For the tax character of distributions paid during the fiscal year ended September 30, 2018, please refer to page 41 of this report.

based on its NAV and market price as of September 30, 2018. **Past performance is no guarantee of future results.**

#### Performance Snapshot as of September 30, 2018

|                       |                            |
|-----------------------|----------------------------|
| Price Per Share       | 12-Month<br>Total Return** |
| \$5.44 (NAV)          | 2.15%                      |
| \$4.76 (Market Price) | -0.84%                     |

**All figures represent past performance and are not a guarantee of future results.**

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

**Total return assumes the reinvestment of all distributions at NAV.**

**Total return assumes the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

#### Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's relative performance during the reporting period was our issuer selection. In particular, overweight positions in Berry Petroleum Co. and Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals) were the most additive for returns. Berry Petroleum Corp. was the beneficiary of rising oil prices. Bausch Health Companies Inc. continued to execute on its plan to sell assets, reduce debt and stabilize its fundamental performance, all of which helped send its bonds higher. Elsewhere, the Fund's overweight exposure to government bonds issued by Poland was rewarded. These bonds performed well due to continued strong growth in the country. In addition, Poland's economy remains competitive and diversified, and the government maintains a strong record of fiscal prudence.

Sector positioning, overall, contributed to performance. More specifically, an overweight to the Energy sector versus the benchmark was a positive, as it was one of the top performing sectors during the reporting period. An underweight to the Information Technology sector was also additive to results as the sector lagged the benchmark. Elsewhere, an opportunistic allocation to bank loans was rewarded as they outperformed the overall high-yield corporate bond market.

Finally, our quality biases modestly contributed to results. In particular, on average having an overall overweight to lower quality CCC-rated credits was additive for returns as they outperformed their higher rated counterparts during the reporting period. As mentioned, we pared the Fund's allocation to CCC-rated securities as the reporting period progressed.

#### Q. What were the leading detractors from performance?

A. The largest detractor from the Fund's relative performance during the reporting period was its asset class positioning. In particular, an allocation to emerging markets debt detracted from results, as the asset class underperformed U.S. high-yield bonds. We felt positive global growth momentum and commodity stabilization would benefit the Fund's emerging markets positioning. Examples of detractors from results were the Fund's positions in Argentina and Brazil. An opportunistic allocation to investment-grade corporate bonds was also a headwind for results, as lower quality bonds outperformed

## Fund overview (cont d)

their higher quality counterparts during the reporting period.

Duration<sup>vii</sup> positioning was also negative for returns. More specifically, having a long duration stance was not rewarded as interest rates moved higher across the yield curve<sup>viii</sup> during the reporting period. The Fund's long duration strategy was one among many that we employed in constructing a well-diversified portfolio.

An example of an individual holding that detracted from performance was an overweight position in Blue Ridge Mountain Resources Inc. We own the equity of this oil and gas company, which we received in a restructuring. The company's shares performed poorly, partially driven by an abundance of forced sellers in the market. Finally, from a sector positioning perspective, an overweight to the Consumer Non-Cyclicals sector and an overweight to the banking industry were negative for results during the reporting period.

### Looking for additional information?

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

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

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

Sincerely,

Western Asset Management Company, LLC

October 22, 2018

***RISKS:** The Fund is a diversified closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Diversification does not assure against market loss. The Fund's investments are subject to a number of risks, such as credit risk, inflation risk and interest rate risk. The Fund may invest in lower-rated high-yield bonds, commonly known as junk bonds, which are subject to greater credit risk (risk of default) and liquidity risk than higher-rated obligations. The Fund is also permitted purchases of equity securities. Equity securities generally have greater price volatility than fixed-income securities. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately*

*increase losses, and have a potentially large impact on Fund performance. In addition, the Fund may invest in foreign securities, which are subject to certain risks of overseas investing, including currency fluctuations and changes in political, social and economic conditions, which could result in significant fluctuations. These risks are magnified in emerging markets.*

Portfolio holdings and breakdowns are as of September 30, 2018 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 9 through 24 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of September 30, 2018 were: Communication Services (22.6%), Energy (17.9%), Financials (12.9%), Consumer Discretionary (10.2%) and Health Care (8.5%). The Fund's portfolio composition is subject to change at any time.

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

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

<sup>i</sup> The Federal Reserve Board (the Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

<sup>ii</sup> The Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

<sup>iii</sup> The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Bloomberg Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

<sup>iv</sup> The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index Caa Component is an index of the 2% Issuer Cap component of the broader Bloomberg Barclays U.S. Corporate High Yield Index and is comprised of Caa-rated securities included in this index.

<sup>v</sup> Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any), from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.

<sup>vi</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended September 30, 2018, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 9 funds in the Fund's Lipper category.

<sup>vii</sup> Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

<sup>viii</sup> The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

## Fund at a glance (unaudited)

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

The bar graph above represents the composition of the Fund's investments as of September 30, 2018 and September 30, 2017 and does not include derivatives, such as forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

\* As of September 28, 2018, the Telecommunication Services sector was broadened to include some companies previously classified in the Consumer Discretionary and Information Technology sectors and renamed the Communication Services sector.

## Spread duration (unaudited)

Economic exposure September 30, 2018

### Total Spread Duration

HIO 4.23 years

Benchmark 3.76 years

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

|           |  |
|-----------|--|
| Benchmark | Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index |
| EM        | Emerging Markets   |
| HIO       | Western Asset High Income Opportunity Fund Inc.                  |
| HY        | High Yield   |
| IG Credit | Investment Grade Credit  |

## Effective duration (unaudited)

Interest rate exposure September 30, 2018

### Total Effective Duration

HIO 4.30 years

Benchmark 3.87 years

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

|           |  |
|-----------|--|
| Benchmark | Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index |
| EM        | Emerging Markets   |
| HIO       | Western Asset High Income Opportunity Fund Inc.                  |
| HY        | High Yield   |
| IG Credit | Investment Grade Credit  |

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## Schedule of investments

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security  | Rate    | Maturity Date | Face Amount | Value             |
|---|---------|---------------|-------------|-------------------|
| <b>Corporate Bonds &amp; Notes 81.2%</b>                            |         |               |             |                   |
| <b>Communication Services 20.8%</b>                                 |         |               |             |                   |
| <i>Diversified Telecommunication Services 3.0%</i>                  |         |               |             |                   |
| Cogent Communications Group Inc., Senior Secured Notes              | 5.375%  | 3/1/22        | 2,120,000   | \$ 2,162,400 (a)  |
| Intelsat Jackson Holdings SA, Senior Secured Notes                  | 8.000%  | 2/15/24       | 2,910,000   | 3,070,050 (a)     |
| Telecom Italia SpA, Senior Notes                                    | 5.303%  | 5/30/24       | 2,800,000   | 2,737,000 (a)     |
| UPCB Finance IV Ltd., Senior Secured Notes                          | 5.375%  | 1/15/25       | 1,515,000   | 1,516,894 (a)     |
| Windstream Services LLC/Windstream Finance Corp., Second Lien Notes | 10.500% | 6/30/24       | 13,170,000  | 11,326,200 (a)    |
| <i>Total Diversified Telecommunication Services</i>                 |         |               |             | <i>20,812,544</i> |
| <i>Interactive Media &amp; Services 1.0%</i>                        |         |               |             |                   |
| Match Group Inc., Senior Notes                                      | 6.375%  | 6/1/24        | 940,000     | 992,875           |
| Match Group Inc., Senior Notes                                      | 5.000%  | 12/15/27      | 5,770,000   | 5,770,577 (a)     |
| <i>Total Interactive Media &amp; Services</i>                       |         |               |             | <i>6,763,452</i>  |
| <i>Media 11.4%</i>  |         |               |             |                   |
| Alice France SA, Senior Secured Bonds                               | 6.250%  | 5/15/24       | 4,430,000   | 4,380,162 (a)     |
| Alice France SA, Senior Secured Notes                               | 7.375%  | 5/1/26        | 5,632,000   | 5,653,120 (a)     |
| Alice France SA, Senior Secured Notes                               | 8.125%  | 2/1/27        | 9,000,000   | 9,292,500 (a)     |
| Alice Luxembourg SA, Senior Secured Notes                           | 7.750%  | 5/15/22       | 14,585,000  | 14,220,375 (a)    |
| CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes           | 5.750%  | 2/15/26       | 1,170,000   | 1,175,850 (a)     |
| CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes           | 5.125%  | 5/1/27        | 671,000     | 637,450 (a)       |
| CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes           | 5.000%  | 2/1/28        | 14,109,000  | 13,296,322 (a)    |
| DISH DBS Corp., Senior Notes  | 5.875%  | 11/15/24      | 5,568,000   | 5,011,200         |
| DISH DBS Corp., Senior Notes  | 7.750%  | 7/1/26        | 14,518,000  | 13,749,272        |
| Time Warner Cable LLC, Senior Secured Notes                         | 8.250%  | 4/1/19        | 1,039,000   | 1,065,687         |
| UPC Holding BV, Senior Secured Notes                                | 5.500%  | 1/15/28       | 2,680,000   | 2,550,208 (a)     |
| Virgin Media Finance PLC, Senior Notes                              | 6.375%  | 4/15/23       | 2,800,000   | 2,880,500 (a)     |
| Virgin Media Finance PLC, Senior Notes                              | 6.000%  | 10/15/24      | 5,745,000   | 5,770,450 (a)     |
| Virgin Media Finance PLC, Senior Secured Notes                      | 5.500%  | 8/15/26       | 430,000     | 425,700 (a)       |
| <i>Total Media</i>  |         |               |             | <i>80,108,796</i> |
| <i>Wireless Telecommunication Services 5.4%</i>                     |         |               |             |                   |
| CSC Holdings LLC, Senior Notes                                      | 10.125% | 1/15/23       | 665,000     | 729,173 (a)       |
| CSC Holdings LLC, Senior Notes                                      | 6.625%  | 10/15/25      | 4,000,000   | 4,225,000 (a)     |
| CSC Holdings LLC, Senior Notes                                      | 10.875% | 10/15/25      | 1,899,000   | 2,212,335 (a)     |
| Sprint Capital Corp., Senior Notes                                  | 6.875%  | 11/15/28      | 2,190,000   | 2,206,425         |
| Sprint Capital Corp., Senior Notes                                  | 8.750%  | 3/15/32       | 6,120,000   | 6,900,300         |
| Sprint Communications Inc., Senior Notes                            | 9.000%  | 11/15/18      | 4,250,000   | 4,281,663 (a)     |
| Sprint Communications Inc., Senior Notes                            | 7.000%  | 8/15/20       | 1,820,000   | 1,906,450         |
| Sprint Communications Inc., Senior Notes                            | 11.500% | 11/15/21      | 3,770,000   | 4,439,175         |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security   | Rate    | Maturity Date | Face Amount | Value                  |
|--|---------|---------------|-------------|------------------------|
| <i>Wireless Telecommunication Services continued</i>                                   |         |               |             |                        |
| Sprint Corp., Senior Notes   | 7.250%  | 9/15/21       | 2,800,000   | \$ 2,968,000           |
| Sprint Corp., Senior Notes   | 7.875%  | 9/15/23       | 360,000     | 389,250                |
| T-Mobile USA Inc., Senior Notes  | 6.000%  | 3/1/23        | 1,080,000   | 1,112,940              |
| T-Mobile USA Inc., Senior Notes  | 6.500%  | 1/15/26       | 910,000     | 955,682                |
| VEON Holdings BV, Senior Notes   | 7.504%  | 3/1/22        | 1,530,000   | 1,641,812 (i)          |
| VEON Holdings BV, Senior Notes   | 7.504%  | 3/1/22        | 940,000     | 1,008,695 (a)          |
| Vimpel Communications Via VIP Finance Ireland Ltd. OJSC, Senior Notes                  | 7.748%  | 2/2/21        | 3,170,000   | 3,388,048 (a)          |
| <i>Total Wireless Telecommunication Services</i>                                       |         |               |             | <i>38,364,948</i>      |
| <b>Total Communication Services</b>  |         |               |             | <b>146,049,740</b>     |
| <i>Consumer Discretionary 6.3%</i>   |         |               |             |                        |
| <i>Auto Components 1.0%</i>  |         |               |             |                        |
| Adient Global Holdings Ltd., Senior Notes  | 4.875%  | 8/15/26       | 2,139,000   | 1,911,731 (a)          |
| IHO Verwaltungs GmbH, Senior Secured Notes, (4.750% Cash or 5.500% PIK)                | 4.750%  | 9/15/26       | 580,000     | 548,100 (a)(b)         |
| JB Poindexter & Co. Inc., Senior Notes   | 7.125%  | 4/15/26       | 1,730,000   | 1,803,525 (a)          |
| ZF North America Capital Inc., Senior Notes  | 4.750%  | 4/29/25       | 2,580,000   | 2,582,871 (a)          |
| <i>Total Auto Components</i>   |         |               |             | <i>6,846,227</i>       |
| <i>Diversified Consumer Services 2.3%</i>  |         |               |             |                        |
| Carriage Services Inc., Senior Notes   | 6.625%  | 6/1/26        | 3,157,000   | 3,243,817 (a)          |
| Frontdoor Inc., Senior Notes   | 6.750%  | 8/15/26       | 570,000     | 588,525 (a)            |
| Prime Security Services Borrower LLC/Prime Finance Inc., Senior Notes                  | 9.250%  | 5/15/23       | 2,943,000   | 3,154,896 (a)          |
| Service Corp. International, Senior Notes  | 7.500%  | 4/1/27        | 1,975,000   | 2,228,057              |
| VOC Escrow Ltd., Senior Secured Notes  | 5.000%  | 2/15/28       | 7,351,000   | 7,101,360 (a)          |
| <i>Total Diversified Consumer Services</i>   |         |               |             | <i>16,316,655</i>      |
| <i>Hotels, Restaurants &amp; Leisure 1.5%</i>  |         |               |             |                        |
| Bossier Casino Venture Holdco Inc., Senior Secured Bonds (14.000% PIK)                 | 14.000% | 2/9/23        | 2,278,759   | 2,278,759 (a)(b)(c)(d) |
| Carrols Restaurant Group Inc., Secured Notes   | 8.000%  | 5/1/22        | 1,540,000   | 1,607,837              |
| Downstream Development Authority of the Quapaw Tribe of Oklahoma, Senior Secured Notes | 10.500% | 2/15/23       | 490,000     | 503,475 (a)            |
| Hilton Domestic Operating Co. Inc., Senior Notes                                       | 5.125%  | 5/1/26        | 4,870,000   | 4,870,000 (a)          |
| Silversea Cruise Finance Ltd., Senior Secured Notes                                    | 7.250%  | 2/1/25        | 1,438,000   | 1,571,015 (a)          |
| <i>Total Hotels, Restaurants &amp; Leisure</i>   |         |               |             | <i>10,831,086</i>      |
| <i>Household Durables 0.3%</i>   |         |               |             |                        |
| Lennar Corp., Senior Notes   | 4.500%  | 4/30/24       | 590,000     | 579,203                |
| Lennar Corp., Senior Notes   | 4.750%  | 5/30/25       | 1,780,000   | 1,742,175              |
| <i>Total Household Durables</i>  |         |               |             | <i>2,321,378</i>       |

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate   | Maturity Date | Face Amount | Value                    |
|--|--------|---------------|-------------|--------------------------|
| <i>Specialty Retail 0.7%</i>                                       |        |               |             |                          |
| Hertz Corp., Senior Notes  | 5.875% | 10/15/20      | 2,030,000   | \$ 2,030,000             |
| Party City Holdings Inc., Senior Notes                             | 6.625% | 8/1/26        | 1,630,000   | 1,654,450 <sup>(a)</sup> |
| Sally Holdings LLC/Sally Capital Inc., Senior Notes                | 5.625% | 12/1/25       | 900,000     | 861,750                  |
| <i>Total Specialty Retail</i>                                      |        |               |             | <i>4,546,200</i>         |
| <i>Textiles, Apparel &amp; Luxury Goods 0.5%</i>                   |        |               |             |                          |
| Hanesbrands Inc., Senior Notes                                     | 4.625% | 5/15/24       | 3,736,000   | 3,649,605 <sup>(a)</sup> |
| Hanesbrands Inc., Senior Notes                                     | 4.875% | 5/15/26       | 136,000     | 130,730 <sup>(a)</sup>   |
| <i>Total Textiles, Apparel &amp; Luxury Goods</i>                  |        |               |             | <i>3,780,335</i>         |
| <b>Total Consumer Discretionary</b>                                |        |               |             | <b>44,641,881</b>        |
| <i>Consumer Staples 0.6%</i>                                       |        |               |             |                          |
| <i>Food Products 0.2%</i>  |        |               |             |                          |
| Lamb Weston Holdings Inc., Senior Notes                            | 4.875% | 11/1/26       | 1,400,000   | 1,377,250 <sup>(a)</sup> |
| <i>Household Products 0.4%</i>                                     |        |               |             |                          |
| Central Garden & Pet Co., Senior Notes                             | 6.125% | 11/15/23      | 1,080,000   | 1,119,150                |
| Spectrum Brands Inc., Senior Notes                                 | 6.625% | 11/15/22      | 940,000     | 965,850                  |
| Spectrum Brands Inc., Senior Notes                                 | 6.125% | 12/15/24      | 650,000     | 666,250                  |
| <i>Total Household Products</i>                                    |        |               |             | <i>2,751,250</i>         |
| <b>Total Consumer Staples</b>                                      |        |               |             | <b>4,128,500</b>         |
| <i>Energy 16.4%</i>  |        |               |             |                          |
| <i>Energy Equipment &amp; Services 0.8%</i>                        |        |               |             |                          |
| KCA Deutag UK Finance PLC, Senior Secured Notes                    | 9.875% | 4/1/22        | 2,320,000   | 2,320,000 <sup>(a)</sup> |
| Pride International Inc., Senior Notes                             | 7.875% | 8/15/40       | 1,000,000   | 955,000                  |
| Transocean Guardian Ltd., Senior Secured Notes                     | 5.875% | 1/15/24       | 1,010,000   | 1,022,625 <sup>(a)</sup> |
| Transocean Inc., Senior Notes                                      | 9.000% | 7/15/23       | 830,000     | 904,700 <sup>(a)</sup>   |
| Transocean Inc., Senior Notes                                      | 6.800% | 3/15/38       | 970,000     | 843,900                  |
| <i>Total Energy Equipment &amp; Services</i>                       |        |               |             | <i>6,046,225</i>         |
| <i>Oil, Gas &amp; Consumable Fuels 15.6%</i>                       |        |               |             |                          |
| Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes | 6.375% | 5/1/24        | 650,000     | 690,625                  |
| Berry Petroleum Co. Escrow   |        |               | 1,230,000   | 0 <sup>*(c)(d)(e)</sup>  |
| Berry Petroleum Co. Escrow   |        |               | 3,484,000   | 0 <sup>*(c)(d)(e)</sup>  |
| Blue Racer Midstream LLC/Blue Racer Finance Corp., Senior Notes    | 6.125% | 11/15/22      | 2,840,000   | 2,928,750 <sup>(a)</sup> |
| Cheniere Corpus Christi Holdings LLC, Senior Secured Notes         | 5.875% | 3/31/25       | 810,000     | 853,538                  |
| Chesapeake Energy Corp., Senior Notes                              | 6.875% | 11/15/20      | 5,200,000   | 5,473,000                |
| Chesapeake Energy Corp., Senior Notes                              | 5.375% | 6/15/21       | 1,655,000   | 1,655,000                |
| Chesapeake Energy Corp., Senior Notes                              | 5.750% | 3/15/23       | 600,000     | 587,250                  |
| Chesapeake Energy Corp., Senior Notes                              | 8.000% | 6/15/27       | 680,000     | 695,300                  |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security   | Rate   | Maturity Date | Face Amount | Value                    |
|--|--------|---------------|-------------|--------------------------|
| <i>Oil, Gas &amp; Consumable Fuels continued</i>                                 |        |               |             |                          |
| Continental Resources Inc., Senior Notes   | 3.800% | 6/1/24        | 3,560,000   | \$ 3,495,557             |
| Continental Resources Inc., Senior Notes   | 4.900% | 6/1/44        | 2,640,000   | 2,616,346                |
| Ecopetrol SA, Senior Notes   | 4.125% | 1/16/25       | 1,500,000   | 1,458,750                |
| Ecopetrol SA, Senior Notes   | 7.375% | 9/18/43       | 1,900,000   | 2,166,000                |
| Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes                     | 6.750% | 8/1/22        | 1,320,000   | 1,353,000                |
| Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes                     | 5.625% | 6/15/24       | 490,000     | 465,500                  |
| Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes                     | 6.500% | 10/1/25       | 680,000     | 661,300                  |
| Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes                     | 6.250% | 5/15/26       | 930,000     | 888,150                  |
| Kinder Morgan Inc., Senior Notes   | 7.750% | 1/15/32       | 6,920,000   | 8,763,489                |
| Lukoil International Finance BV, Senior Notes                                    | 4.750% | 11/2/26       | 1,000,000   | 990,595 <sup>(a)</sup>   |
| Magnum Hunter Resources Corp. Escrow   |        |               | 6,700,000   | 0 <sup>*(c)(d)(e)</sup>  |
| MEG Energy Corp., Senior Notes   | 6.375% | 1/30/23       | 4,200,000   | 3,843,000 <sup>(a)</sup> |
| MEG Energy Corp., Senior Notes   | 7.000% | 3/31/24       | 2,450,000   | 2,247,875 <sup>(a)</sup> |
| NGPL PipeCo LLC, Senior Notes  | 7.768% | 12/15/37      | 1,520,000   | 1,869,600 <sup>(a)</sup> |
| Oasis Petroleum Inc., Senior Notes   | 6.500% | 11/1/21       | 2,730,000   | 2,770,950                |
| Oasis Petroleum Inc., Senior Notes   | 6.875% | 1/15/23       | 1,420,000   | 1,446,625                |
| Oasis Petroleum Inc., Senior Notes   | 6.250% | 5/1/26        | 1,670,000   | 1,701,313 <sup>(a)</sup> |
| Pampa Energia SA, Senior Notes   | 7.375% | 7/21/23       | 2,910,000   | 2,713,604 <sup>(i)</sup> |
| Petrobras Global Finance BV, Senior Notes  | 5.999% | 1/27/28       | 2,650,000   | 2,449,925                |
| Petrobras Global Finance BV, Senior Notes  | 5.750% | 2/1/29        | 12,240,000  | 10,946,844               |
| Petrobras Global Finance BV, Senior Notes  | 6.750% | 1/27/41       | 5,120,000   | 4,726,400                |
| Range Resources Corp., Senior Notes  | 4.875% | 5/15/25       | 4,800,000   | 4,566,000                |
| Rockies Express Pipeline LLC, Senior Notes                                       | 7.500% | 7/15/38       | 1,080,000   | 1,290,600 <sup>(a)</sup> |
| Rockies Express Pipeline LLC, Senior Notes                                       | 6.875% | 4/15/40       | 1,140,000   | 1,305,300 <sup>(a)</sup> |
| Shelf Drilling Holdings Ltd., Senior Notes                                       | 8.250% | 2/15/25       | 2,260,000   | 2,339,100 <sup>(a)</sup> |
| Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes | 5.125% | 2/1/25        | 3,580,000   | 3,624,750                |
| Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes | 5.875% | 4/15/26       | 1,670,000   | 1,730,538 <sup>(a)</sup> |
| Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes | 5.000% | 1/15/28       | 8,295,000   | 8,108,362 <sup>(a)</sup> |
| Transportadora de Gas del Sur SA, Senior Notes                                   | 6.750% | 5/2/25        | 5,660,000   | 5,461,900 <sup>(a)</sup> |
| Whiting Petroleum Corp., Senior Notes  | 6.250% | 4/1/23        | 720,000     | 747,000                  |
| Williams Cos. Inc., Senior Notes   | 3.700% | 1/15/23       | 820,000     | 812,579                  |
| Williams Cos. Inc., Senior Notes   | 4.550% | 6/24/24       | 1,530,000   | 1,556,330                |

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate    | Maturity Date | Face Amount | Value                          |
|--|---------|---------------|-------------|--------------------------------|
| <i>Oil, Gas &amp; Consumable Fuels continued</i>   |         |               |             |                                |
| Williams Cos. Inc., Senior Notes   | 7.500%  | 1/15/31       | 620,000     | \$ 755,602                     |
| Williams Cos. Inc., Senior Notes   | 5.750%  | 6/24/44       | 3,190,000   | 3,425,507                      |
| WPX Energy Inc., Senior Notes  | 8.250%  | 8/1/23        | 860,000     | 980,400                        |
| YPF SA, Senior Notes   | 6.950%  | 7/21/27       | 2,530,000   | 2,222,479 <sup>(a)</sup>       |
| <i>Total Oil, Gas &amp; Consumable Fuels</i>   |         |               |             | <i>109,384,733</i>             |
| <b>Total Energy</b>  |         |               |             | <b>115,430,958</b>             |
| <b>Financials 11.6%</b>  |         |               |             |                                |
| <i>Banks 5.9%</i>  |         |               |             |                                |
| Bank of America Corp., Junior Subordinated Notes (6.500% to 10/23/24 then 3 mo. USD LIBOR + 4.174%)                | 6.500%  | 10/23/24      | 2,160,000   | 2,334,420 <sup>(f)(g)</sup>    |
| Barclays Bank PLC, Subordinated Notes  | 10.179% | 6/12/21       | 2,990,000   | 3,408,320 <sup>(a)</sup>       |
| Barclays Bank PLC, Subordinated Notes  | 7.625%  | 11/21/22      | 4,400,000   | 4,777,850                      |
| Barclays PLC, Junior Subordinated Notes (8.250% to 12/15/18 then USD 5 year Swap Rate + 6.705%)                    | 8.250%  | 12/15/18      | 650,000     | 656,521 <sup>(f)(g)</sup>      |
| BNP Paribas SA, Junior Subordinated Notes (7.375% to 8/19/25 then USD 5 year Swap Rate + 5.150%)                   | 7.375%  | 8/19/25       | 1,470,000   | 1,547,101 <sup>(a)(f)(g)</sup> |
| CIT Group Inc., Senior Notes   | 5.375%  | 5/15/20       | 270,000     | 278,127                        |
| CIT Group Inc., Senior Notes   | 5.000%  | 8/15/22       | 1,000,000   | 1,022,500                      |
| CIT Group Inc., Senior Notes   | 5.000%  | 8/1/23        | 3,470,000   | 3,548,422                      |
| CIT Group Inc., Senior Notes   | 5.250%  | 3/7/25        | 1,050,000   | 1,073,625                      |
| Citigroup Inc., Junior Subordinated Notes (6.300% to 5/15/24 then 3 mo. USD LIBOR + 3.423%)                        | 6.300%  | 5/15/24       | 2,060,000   | 2,106,350 <sup>(f)(g)</sup>    |
| Credit Agricole SA, Junior Subordinated Notes (8.125% to 12/23/25 then USD 5 year Swap Rate + 6.185%)              | 8.125%  | 12/23/25      | 2,290,000   | 2,524,693 <sup>(a)(f)(g)</sup> |
| Credit Agricole SA, Junior Subordinated Notes (8.375% to 10/13/19 then 3 mo. USD LIBOR + 6.982%)                   | 8.375%  | 10/13/19      | 1,370,000   | 1,428,739 <sup>(a)(f)(g)</sup> |
| Intesa Sanpaolo SpA, Subordinated Notes  | 5.017%  | 6/26/24       | 8,410,000   | 7,598,251 <sup>(a)</sup>       |
| Intesa Sanpaolo SpA, Subordinated Notes  | 5.710%  | 1/15/26       | 765,000     | 696,918 <sup>(a)</sup>         |
| JPMorgan Chase & Co., Junior Subordinated Notes (6.000% to 8/1/23 then 3 mo. USD LIBOR + 3.300%)                   | 6.000%  | 8/1/23        | 1,390,000   | 1,447,337 <sup>(f)(g)</sup>    |
| JPMorgan Chase & Co., Junior Subordinated Notes (6.100% to 10/1/24 then 3 mo. USD LIBOR + 3.330%)                  | 6.100%  | 10/1/24       | 1,170,000   | 1,212,413 <sup>(f)(g)</sup>    |
| NatWest Markets NV, Subordinated Notes   | 7.750%  | 5/15/23       | 620,000     | 686,442                        |
| Royal Bank of Scotland Group PLC, Junior Subordinated Notes (7.648% to 9/30/31 then 3 mo. USD LIBOR + 2.500%)      | 7.648%  | 9/30/31       | 1,880,000   | 2,361,750 <sup>(f)(g)</sup>    |
| Royal Bank of Scotland Group PLC, Junior Subordinated Notes (8.625% to 8/15/21 then USD 5 year Swap Rate + 7.598%) | 8.625%  | 8/15/21       | 1,220,000   | 1,309,975 <sup>(f)(g)</sup>    |
| TC Ziraat Bankasi AS, Senior Notes   | 5.125%  | 9/29/23       | 2,040,000   | 1,746,165 <sup>(a)</sup>       |
| <i>Total Banks</i>   |         |               |             | <i>41,765,919</i>              |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security  | Rate   | Maturity Date | Face Amount | Value                             |
|---|--------|---------------|-------------|-----------------------------------|
| <i>Capital Markets 1.2%</i>   |        |               |             |                                   |
| Credit Suisse Group AG, Junior Subordinated Notes (6.250% to 12/18/24 then USD 5 year Swap Rate + 3.455%) | 6.250% | 12/18/24      | 2,750,000   | \$ 2,719,062 <sup>(a)(f)(g)</sup> |
| Donnelley Financial Solutions Inc., Senior Notes  | 8.250% | 10/15/24      | 1,680,000   | 1,777,650                         |
| Goldman Sachs Group Inc., Subordinated Notes  | 6.750% | 10/1/37       | 1,880,000   | 2,265,435                         |
| Goldman Sachs Group Inc., Subordinated Notes  | 5.150% | 5/22/45       | 2,030,000   | 2,076,300                         |
| <i>Total Capital Markets</i>  |        |               |             | <i>8,838,447</i>                  |
| <i>Consumer Finance 1.0%</i>  |        |               |             |                                   |
| Ally Financial Inc., Senior Notes   | 8.000% | 3/15/20       | 1,744,000   | 1,853,000                         |
| FirstCash Inc., Senior Notes  | 5.375% | 6/1/24        | 1,520,000   | 1,535,200 <sup>(a)</sup>          |
| Navient Corp., Medium-Term Notes, Senior Notes  | 8.000% | 3/25/20       | 1,510,000   | 1,593,050                         |
| Navient Corp., Senior Notes   | 6.750% | 6/15/26       | 1,980,000   | 1,960,200                         |
| <i>Total Consumer Finance</i>   |        |               |             | <i>6,941,450</i>                  |
| <i>Diversified Financial Services 3.3%</i>  |        |               |             |                                   |
| AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Notes                                     | 4.625% | 10/30/20      | 650,000     | 662,724                           |
| AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Notes                                     | 4.625% | 7/1/22        | 1,210,000   | 1,235,649                         |
| ASP AMC Merger Sub Inc., Senior Notes   | 8.000% | 5/15/25       | 4,300,000   | 3,289,500 <sup>(a)</sup>          |
| DAE Funding LLC, Senior Notes   | 5.000% | 8/1/24        | 9,533,000   | 9,354,256 <sup>(a)</sup>          |
| International Lease Finance Corp., Senior Notes   | 6.250% | 5/15/19       | 250,000     | 254,901                           |
| International Lease Finance Corp., Senior Notes   | 8.250% | 12/15/20      | 3,675,000   | 4,017,974                         |
| International Lease Finance Corp., Senior Notes   | 8.625% | 1/15/22       | 170,000     | 193,351                           |
| International Lease Finance Corp., Senior Notes   | 5.875% | 8/15/22       | 600,000     | 635,250                           |
| Park Aerospace Holdings Ltd., Senior Notes  | 5.500% | 2/15/24       | 1,340,000   | 1,376,850 <sup>(a)</sup>          |
| Travelport Corporate Finance PLC, Senior Secured Notes  | 6.000% | 3/15/26       | 1,860,000   | 1,893,796 <sup>(a)</sup>          |
| <i>Total Diversified Financial Services</i>   |        |               |             | <i>22,914,251</i>                 |
| <i>Insurance 0.2%</i>   |        |               |             |                                   |
| MetLife Capital Trust IV, Junior Subordinated Notes   | 7.875% | 12/15/37      | 1,010,000   | 1,242,300 <sup>(a)</sup>          |
| <b>Total Financials</b>   |        |               |             | <b>81,702,367</b>                 |
| <i>Health Care 8.5%</i>   |        |               |             |                                   |
| <i>Health Care Providers &amp; Services 3.9%</i>  |        |               |             |                                   |
| Air Medical Group Holdings Inc., Senior Notes   | 6.375% | 5/15/23       | 570,000     | 514,425 <sup>(a)</sup>            |
| BioScrip Inc., First Lien Notes (1 mo. USD LIBOR + 7.000%)  | 8.224% | 6/30/22       | 2,575,000   | 2,697,312 <sup>(d)(g)(h)</sup>    |
| Centene Corp., Senior Notes   | 5.625% | 2/15/21       | 1,160,000   | 1,183,200                         |
| Centene Corp., Senior Notes   | 6.125% | 2/15/24       | 710,000     | 747,275                           |
| Centene Corp., Senior Notes   | 4.750% | 1/15/25       | 4,580,000   | 4,580,000                         |
| DaVita Inc., Senior Notes   | 5.750% | 8/15/22       | 1,740,000   | 1,778,454                         |
| DaVita Inc., Senior Notes   | 5.000% | 5/1/25        | 2,626,000   | 2,517,678                         |

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate   | Maturity Date | Face Amount | Value                    |
|--|--------|---------------|-------------|--------------------------|
| <i>Health Care Providers &amp; Services continued</i>              |        |               |             |                          |
| HCA Inc., Senior Notes   | 7.690% | 6/15/25       | 490,000     | \$ 550,025               |
| HCA Inc., Senior Notes   | 7.500% | 11/15/95      | 6,265,000   | 6,265,000                |
| HCA Inc., Senior Secured Notes                                     | 5.250% | 6/15/26       | 4,870,000   | 5,022,187                |
| RegionalCare Hospital Partners Holdings Inc., Senior Secured Notes | 8.250% | 5/1/23        | 1,560,000   | 1,645,800 <sup>(a)</sup> |
| <i>Total Health Care Providers &amp; Services</i>                  |        |               |             | <i>27,501,356</i>        |
| <i>Pharmaceuticals 4.6%</i>  |        |               |             |                          |
| Bausch Health Cos. Inc., Senior Notes                              | 7.500% | 7/15/21       | 3,010,000   | 3,073,962 <sup>(a)</sup> |
| Bausch Health Cos. Inc., Senior Notes                              | 5.875% | 5/15/23       | 1,330,000   | 1,301,738 <sup>(a)</sup> |
| Bausch Health Cos. Inc., Senior Notes                              | 6.125% | 4/15/25       | 7,140,000   | 6,800,850 <sup>(a)</sup> |
| Bausch Health Cos. Inc., Senior Notes                              | 9.000% | 12/15/25      | 2,200,000   | 2,376,000 <sup>(a)</sup> |
| Bausch Health Cos. Inc., Senior Secured Notes                      | 7.000% | 3/15/24       | 700,000     | 741,300 <sup>(a)</sup>   |
| Endo Finance LLC/Endo Finco Inc., Senior Notes                     | 5.375% | 1/15/23       | 1,020,000   | 902,700 <sup>(a)</sup>   |
| Teva Pharmaceutical Finance Co. BV, Senior Notes                   | 3.650% | 11/10/21      | 270,000     | 261,715                  |
| Teva Pharmaceutical Finance Netherlands III BV, Senior Notes       | 2.200% | 7/21/21       | 17,810,000  | 16,747,238               |
| <i>Total Pharmaceuticals</i>                                       |        |               |             | <i>32,205,503</i>        |
| <b>Total Health Care</b>   |        |               |             |                          |
| <b>Industrials 6.2%</b>  |        |               |             |                          |
| <i>Aerospace &amp; Defense 0.5%</i>                                |        |               |             |                          |
| BBA US Holdings Inc., Senior Notes                                 | 5.375% | 5/1/26        | 1,910,000   | 1,917,162 <sup>(a)</sup> |
| BWX Technologies Inc., Senior Notes                                | 5.375% | 7/15/26       | 1,290,000   | 1,298,063 <sup>(a)</sup> |
| <i>Total Aerospace &amp; Defense</i>                               |        |               |             | <i>3,215,225</i>         |
| <i>Air Freight &amp; Logistics 0.1%</i>                            |        |               |             |                          |
| XPO Logistics Inc., Senior Notes                                   | 6.500% | 6/15/22       | 776,000     | 804,130 <sup>(a)</sup>   |
| <i>Airlines 0.1%</i>   |        |               |             |                          |
| Delta Air Lines 2007-1 Class B Pass Through Trust, Secured Notes   | 8.021% | 8/10/22       | 484,088     | 531,819 <sup>(d)</sup>   |
| <i>Building Products 1.2%</i>                                      |        |               |             |                          |
| Standard Industries Inc., Senior Notes                             | 5.375% | 11/15/24      | 630,000     | 631,575 <sup>(a)</sup>   |
| Standard Industries Inc., Senior Notes                             | 5.000% | 2/15/27       | 3,500,000   | 3,303,125 <sup>(a)</sup> |
| Standard Industries Inc., Senior Notes                             | 4.750% | 1/15/28       | 5,010,000   | 4,646,525 <sup>(a)</sup> |
| <i>Total Building Products</i>                                     |        |               |             | <i>8,581,225</i>         |
| <i>Commercial Services &amp; Supplies 0.4%</i>                     |        |               |             |                          |
| GFL Environmental Inc., Senior Notes                               | 5.375% | 3/1/23        | 1,420,000   | 1,338,350 <sup>(a)</sup> |
| United Rentals North America Inc., Senior Notes                    | 4.625% | 10/15/25      | 910,000     | 884,975                  |
| United Rentals North America Inc., Senior Notes                    | 4.875% | 1/15/28       | 690,000     | 648,600                  |
| <i>Total Commercial Services &amp; Supplies</i>                    |        |               |             | <i>2,871,925</i>         |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate    | Maturity Date | Face Amount | Value             |
|--|---------|---------------|-------------|-------------------|
| <i>Construction &amp; Engineering 0.3%</i>   |         |               |             |                   |
| Brundage-Bone Concrete Pumping Inc., Senior Secured Notes                                  | 10.375% | 9/1/23        | 1,930,000   | \$ 2,060,275 (a)  |
| <i>Containers &amp; Packaging 0.7%</i>   |         |               |             |                   |
| Berry Global Inc., Secured Notes   | 4.500%  | 2/15/26       | 5,220,000   | 4,972,050 (a)     |
| <i>Industrial Conglomerates 0.1%</i>   |         |               |             |                   |
| General Electric Co., Senior Notes   | 6.875%  | 1/10/39       | 600,000     | 750,749           |
| <i>Machinery 1.6%</i>  |         |               |             |                   |
| Allison Transmission Inc., Senior Notes  | 4.750%  | 10/1/27       | 6,975,000   | 6,600,094 (a)     |
| Blueline Rental Finance Corp./Blueline Rental LLC, Senior Secured Notes                    | 9.250%  | 3/15/24       | 2,220,000   | 2,339,325 (a)     |
| Cleaver-Brooks Inc., Senior Secured Notes  | 7.875%  | 3/1/23        | 1,410,000   | 1,445,250 (a)     |
| Park-Ohio Industries Inc., Senior Notes  | 6.625%  | 4/15/27       | 587,000     | 604,610           |
| <i>Total Machinery</i>   |         |               |             | 10,989,279        |
| <i>Marine 0.3%</i>   |         |               |             |                   |
| Navios Maritime Acquisition Corp./Navios Acquisition Finance US Inc., Senior Secured Notes | 8.125%  | 11/15/21      | 2,850,000   | 2,368,350 (a)     |
| <i>Trading Companies &amp; Distributors 0.8%</i>   |         |               |             |                   |
| Ashtead Capital Inc., Secured Notes  | 4.125%  | 8/15/25       | 2,420,000   | 2,311,100 (a)     |
| Ashtead Capital Inc., Secured Notes  | 4.375%  | 8/15/27       | 3,220,000   | 3,067,050 (a)     |
| <i>Total Trading Companies &amp; Distributors</i>  |         |               |             | 5,378,150         |
| <i>Transportation Infrastructure 0.1%</i>  |         |               |             |                   |
| Neovia Logistics Services LLC/SPL Logistics Finance Corp., Senior Secured Notes            | 8.875%  | 8/1/20        | 1,160,000   | 1,055,600 (a)     |
| <b>Total Industrials</b>   |         |               |             | <b>43,578,777</b> |
| <i>Information Technology 1.6%</i>   |         |               |             |                   |
| <i>Software 1.0%</i>   |         |               |             |                   |
| CDK Global Inc., Senior Notes  | 5.875%  | 6/15/26       | 4,000,000   | 4,131,520         |
| Interface Special Holdings Inc., Senior Notes (19.000% PIK)                                | 19.000% | 11/1/23       | 1,800,711   | 1,035,443 (a)(b)  |
| j2 Cloud Services LLC/j2 Global Co-Obligor Inc., Senior Notes                              | 6.000%  | 7/15/25       | 1,630,000   | 1,680,938 (a)     |
| <i>Total Software</i>  |         |               |             | 6,847,901         |
| <i>Technology Hardware, Storage &amp; Peripherals 0.6%</i>                                 |         |               |             |                   |
| Dell International LLC/EMC Corp., Senior Notes   | 5.875%  | 6/15/21       | 970,000     | 1,001,502 (a)     |
| Dell International LLC/EMC Corp., Senior Notes   | 7.125%  | 6/15/24       | 740,000     | 793,934 (a)       |
| Seagate HDD Cayman, Senior Notes   | 4.750%  | 6/1/23        | 1,370,000   | 1,364,367         |
| Seagate HDD Cayman, Senior Notes   | 4.750%  | 1/1/25        | 670,000     | 643,269           |
| Seagate HDD Cayman, Senior Notes   | 4.875%  | 6/1/27        | 400,000     | 374,892           |
| <i>Total Technology Hardware, Storage &amp; Peripherals</i>                                |         |               |             | 4,177,964         |
| <b>Total Information Technology</b>  |         |               |             | <b>11,025,865</b> |

See Notes to Financial Statements.



## Western Asset High Income Opportunity Fund Inc.

| Security  | Rate    | Maturity Date | Face Amount | Value                       |
|---|---------|---------------|-------------|-----------------------------|
| <b>Materials 6.9%</b>   |         |               |             |                             |
| <i>Chemicals 0.5%</i>   |         |               |             |                             |
| Valvoline Inc., Senior Notes  | 5.500%  | 7/15/24       | 250,000     | \$ 251,250                  |
| Valvoline Inc., Senior Notes  | 4.375%  | 8/15/25       | 3,250,000   | 3,026,562                   |
| <i>Total Chemicals</i>  |         |               |             | <i>3,277,812</i>            |
| <i>Containers &amp; Packaging 1.4%</i>                                      |         |               |             |                             |
| ARD Securities Finance SARL, Senior Secured Notes (8.750% PIK)              | 8.750%  | 1/31/23       | 1,108,436   | 1,113,978 <sup>(a)(b)</sup> |
| Ardagh Packaging Finance PLC/Ardagh Holdings USA Inc., Senior Notes         | 7.250%  | 5/15/24       | 1,670,000   | 1,753,500 <sup>(a)</sup>    |
| Ardagh Packaging Finance PLC/Ardagh Holdings USA Inc., Senior Notes         | 6.000%  | 2/15/25       | 490,000     | 480,813 <sup>(a)</sup>      |
| Ardagh Packaging Finance PLC/Ardagh Holdings USA Inc., Senior Secured Notes | 4.625%  | 5/15/23       | 1,390,000   | 1,379,575 <sup>(a)</sup>    |
| Pactiv LLC, Senior Notes  | 8.375%  | 4/15/27       | 5,070,000   | 5,500,950                   |
| <i>Total Containers &amp; Packaging</i>                                     |         |               |             | <i>10,228,816</i>           |
| <i>Metals &amp; Mining 4.5%</i>   |         |               |             |                             |
| Alcoa Nederland Holding BV, Senior Notes                                    | 6.750%  | 9/30/24       | 950,000     | 1,009,375 <sup>(a)</sup>    |
| Alcoa Nederland Holding BV, Senior Notes                                    | 7.000%  | 9/30/26       | 1,970,000   | 2,125,137 <sup>(a)</sup>    |
| Alcoa Nederland Holding BV, Senior Notes                                    | 6.125%  | 5/15/28       | 740,000     | 762,200 <sup>(a)</sup>      |
| ArcelorMittal, Senior Notes   | 7.000%  | 10/15/39      | 2,960,000   | 3,450,634                   |
| Freeport-McMoRan Inc., Senior Notes   | 3.100%  | 3/15/20       | 30,000      | 29,738                      |
| Freeport-McMoRan Inc., Senior Notes   | 4.000%  | 11/14/21      | 780,000     | 777,075                     |
| Freeport-McMoRan Inc., Senior Notes   | 3.550%  | 3/1/22        | 550,000     | 533,500                     |
| Freeport-McMoRan Inc., Senior Notes   | 6.875%  | 2/15/23       | 3,160,000   | 3,381,200                   |
| Freeport-McMoRan Inc., Senior Notes   | 3.875%  | 3/15/23       | 2,730,000   | 2,645,916                   |
| Freeport-McMoRan Inc., Senior Notes   | 4.550%  | 11/14/24      | 1,500,000   | 1,462,500                   |
| Freeport-McMoRan Inc., Senior Notes   | 5.450%  | 3/15/43       | 4,220,000   | 3,861,300                   |
| Hudbay Minerals Inc., Senior Notes  | 7.250%  | 1/15/23       | 400,000     | 413,044 <sup>(a)</sup>      |
| Hudbay Minerals Inc., Senior Notes  | 7.625%  | 1/15/25       | 1,970,000   | 2,043,875 <sup>(a)</sup>    |
| Midwest Vanadium Pty Ltd., Senior Secured Notes                             | 11.500% | 2/15/18       | 2,265,465   | 25,574 <sup>*(a)(j)</sup>   |
| Northwest Acquisitions ULC/Dominion Finco Inc., Senior Secured Notes        | 7.125%  | 11/1/22       | 1,080,000   | 1,107,000 <sup>(a)</sup>    |
| Teck Resources Ltd., Senior Notes   | 8.500%  | 6/1/24        | 2,140,000   | 2,348,650 <sup>(a)</sup>    |
| Teck Resources Ltd., Senior Notes   | 6.250%  | 7/15/41       | 1,050,000   | 1,107,750                   |
| Vale Overseas Ltd., Senior Notes  | 6.875%  | 11/21/36      | 2,320,000   | 2,705,584                   |
| Vale Overseas Ltd., Senior Notes  | 6.875%  | 11/10/39      | 1,500,000   | 1,764,750                   |
| <i>Total Metals &amp; Mining</i>  |         |               |             | <i>31,554,802</i>           |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security  | Rate    | Maturity Date | Face Amount | Value                             |
|---|---------|---------------|-------------|-----------------------------------|
| <i>Paper &amp; Forest Products 0.5%</i>   |         |               |             |                                   |
| Mercer International Inc., Senior Notes   | 6.500%  | 2/1/24        | 2,020,000   | \$ 2,070,702                      |
| Schweitzer-Mauduit International Inc., Senior Notes                                     | 6.875%  | 10/1/26       | 1,420,000   | 1,451,950 <sup>(a)</sup>          |
| <i>Total Paper &amp; Forest Products</i>  |         |               |             | <b>3,522,652</b>                  |
| <b>Total Materials</b>  |         |               |             | <b>48,584,082</b>                 |
| <i>Real Estate 1.3%</i>   |         |               |             |                                   |
| <i>Equity Real Estate Investment Trusts (REITs) 1.0%</i>                                |         |               |             |                                   |
| CoreCivic Inc., Senior Notes  | 4.125%  | 4/1/20        | 90,000      | 90,140                            |
| CoreCivic Inc., Senior Notes  | 5.000%  | 10/15/22      | 1,360,000   | 1,349,800                         |
| CoreCivic Inc., Senior Notes  | 4.625%  | 5/1/23        | 200,000     | 193,000                           |
| CTR Partnership LP/CareTrust Capital Corp., Senior Notes                                | 5.250%  | 6/1/25        | 670,000     | 654,925                           |
| MGM Growth Properties Operating Partnership LP/MGP Finance Co-Issuer Inc., Senior Notes | 4.500%  | 1/15/28       | 2,270,000   | 2,088,627                         |
| MPT Operating Partnership LP/MPT Finance Corp., Senior Notes                            | 6.375%  | 3/1/24        | 820,000     | 861,000                           |
| MPT Operating Partnership LP/MPT Finance Corp., Senior Notes                            | 5.250%  | 8/1/26        | 1,990,000   | 1,987,512                         |
| <i>Total Equity Real Estate Investment Trusts (REITs)</i>                               |         |               |             | <i>7,225,004</i>                  |
| <i>Real Estate Management &amp; Development 0.3%</i>                                    |         |               |             |                                   |
| WeWork Cos. Inc., Senior Notes  | 7.875%  | 5/1/25        | 1,830,000   | 1,782,658 <sup>(a)</sup>          |
| <b>Total Real Estate</b>  |         |               |             | <b>9,007,662</b>                  |
| <i>Utilities 1.0%</i>   |         |               |             |                                   |
| <i>Electric Utilities 0.5%</i>  |         |               |             |                                   |
| NRG REMA LLC, Pass-Through Certificates, Senior Secured Bonds                           | 9.681%  | 7/2/26        | 3,552,089   | 2,521,983                         |
| Red Oak Power LLC, Senior Secured Notes   | 9.200%  | 11/30/29      | 540,000     | 616,275                           |
| <i>Total Electric Utilities</i>   |         |               |             | <i>3,138,258</i>                  |
| <i>Gas Utilities 0.5%</i>   |         |               |             |                                   |
| Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes                | 5.750%  | 3/1/25        | 2,720,000   | 2,652,000                         |
| Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes                | 5.875%  | 3/1/27        | 1,030,000   | 983,650                           |
| <i>Total Gas Utilities</i>  |         |               |             | <i>3,635,650</i>                  |
| <b>Total Utilities</b>  |         |               |             | <b>6,773,908</b>                  |
| <b>Total Corporate Bonds &amp; Notes (Cost \$541,724,252)</b>                           |         |               |             | <b>570,630,599</b>                |
| <i>Senior Loans 7.7%</i>  |         |               |             |                                   |
| <i>Communication Services 1.0%</i>  |         |               |             |                                   |
| <i>Media 1.0%</i>   |         |               |             |                                   |
| American Media Inc., Term Loan (3 mo. LIBOR + 8.000%)                                   | 10.396% | 10/1/18       | 1,230,000   | 1,208,475 <sup>(d)(g)(k)(l)</sup> |
| Charter Communications Operating LLC, Term Loan B (1 mo. LIBOR + 2.000%)                | 4.250%  | 4/30/25       | 4,956,557   | 4,969,231 <sup>(g)(k)(l)</sup>    |

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate         | Maturity Date | Face Amount | Value                   |
|--|--------------|---------------|-------------|-------------------------|
| <i>Media continued</i>   |              |               |             |                         |
| Lamar Media Corp., Term Loan B (1 mo. LIBOR + 1.750%)                          | 3.938%       | 3/14/25       | 716,400     | \$ 719,833 (g)(k)(l)    |
| <b>Total Communication Services</b>  |              |               |             | <b>6,897,539</b>        |
| <b>Consumer Discretionary 3.5%</b>   |              |               |             |                         |
| <i>Auto Components 0.1%</i>  |              |               |             |                         |
| American Axle & Manufacturing Inc., Term Loan B (1 mo. LIBOR + 2.250%)         | 4.450-4.470% | 4/6/24        | 474,328     | 475,069 (g)(k)(l)       |
| <i>Diversified Consumer Services 0.2%</i>                                      |              |               |             |                         |
| Weight Watchers International Inc., Initial Term Loan (1 mo. LIBOR + 4.750%)   | 6.860-7.090% | 11/29/24      | 1,684,375   | 1,705,955 (g)(k)(l)     |
| <i>Hotels, Restaurants &amp; Leisure 1.1%</i>                                  |              |               |             |                         |
| Aramark Services Inc., Term Loan B3 (3 mo. LIBOR + 1.750%)                     | 4.084%       | 3/11/25       | 5,161,875   | 5,178,652 (g)(k)(l)     |
| Hilton Worldwide Finance LLC, Term Loan B2 (1 mo. LIBOR + 1.750%)              | 3.966%       | 10/25/23      | 2,569,371   | 2,582,225 (g)(k)(l)     |
| <i>Total Hotels, Restaurants &amp; Leisure</i>                                 |              |               |             |                         |
| <i>Specialty Retail 2.0%</i>   |              |               |             |                         |
| PetSmart Inc., Tranche B-2 Loan (1 mo. LIBOR + 3.000%)                         | 5.120%       | 3/11/22       | 13,790,479  | 12,141,372 (g)(k)(l)(m) |
| Sally Holdings LLC, Term Loan B1 (1 mo. LIBOR + 2.250%)                        | 4.330%       | 7/5/24        | 1,059,300   | 1,054,004 (d)(g)(k)(l)  |
| Spencer Gifts LLC, Term Loan (Second Lien) (1 mo. LIBOR + 8.250%)              | 10.410%      | 6/29/22       | 1,710,000   | 1,271,099 (g)(k)(l)     |
| <i>Total Specialty Retail</i>  |              |               |             |                         |
| <i>Textiles, Apparel &amp; Luxury Goods 0.1%</i>                               |              |               |             |                         |
| TOMS Shoes LLC, Initial Term Loan (3 mo. LIBOR + 5.500%)                       | 7.810%       | 10/31/20      | 716,827     | 569,877 (g)(k)(l)       |
| <b>Total Consumer Discretionary</b>  |              |               |             | <b>24,978,253</b>       |
| <b>Financials 0.2%</b>   |              |               |             |                         |
| <i>Diversified Financial Services 0.2%</i>                                     |              |               |             |                         |
| Travelport Finance (Luxembourg) SARL, Initial Term Loan (3 mo. LIBOR + 2.500%) | 4.814%       | 3/17/25       | 1,491,964   | 1,494,202 (g)(k)(l)     |
| <b>Industrials 1.7%</b>  |              |               |             |                         |
| <i>Air Freight &amp; Logistics 0.9%</i>  |              |               |             |                         |
| Avolon TLB Borrower 1 (US) LLC, Term Loan B3 (1 mo. LIBOR + 2.000%)            | 4.165%       | 1/15/25       | 5,825,366   | 5,850,863 (g)(k)(l)     |
| <i>Professional Services 0.4%</i>  |              |               |             |                         |
| TransUnion LLC, 2017 Term Loan B3 (1 mo. LIBOR + 2.000%)                       | 4.242%       | 4/9/23        | 2,970,000   | 2,980,211 (g)(k)(l)     |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

## Western Asset High Income Opportunity Fund Inc.

| Security   | Rate    | Maturity Date | Face Amount               | Value                   |
|--|---------|---------------|---------------------------|-------------------------|
| <i>Trading Companies &amp; Distributors 0.4%</i>   |         |               |                           |                         |
| Beacon Roofing Supply Inc., Initial Term Loan (1 mo. LIBOR + 2.250%)                       | 4.383%  | 1/2/25        | 2,985,000                 | \$ 2,983,134 (g)(k)(l)  |
| <b>Total Industrials</b>   |         |               |                           | <b>11,814,208</b>       |
| <i>Information Technology 0.3%</i>   |         |               |                           |                         |
| <i>IT Services 0.3%</i>  |         |               |                           |                         |
| First Data Corp., 2024 USD Term Loan (1 mo. LIBOR + 2.000%)                                | 4.212%  | 4/26/24       | 1,845,862                 | 1,849,209 (g)(k)(l)     |
| <i>Materials 0.5%</i>  |         |               |                           |                         |
| <i>Containers &amp; Packaging 0.5%</i>   |         |               |                           |                         |
| Berry Global Inc., Term Loan Q (2 mo. LIBOR + 2.000%)                                      | 4.319%  | 10/1/22       | 2,256,802                 | 2,262,523 (g)(k)(l)     |
| Reynolds Group Holdings Inc., Term Loan (1 mo. LIBOR + 2.750%)                             | 4.992%  | 2/5/23        | 992,424                   | 998,075 (g)(k)(l)       |
| <b>Total Materials</b>   |         |               |                           | <b>3,260,598</b>        |
| <i>Real Estate 0.4%</i>  |         |               |                           |                         |
| <i>Equity Real Estate Investment Trusts (REITs) 0.4%</i>                                   |         |               |                           |                         |
| Iron Mountain Information Management LLC, Term Loan B (1 mo. LIBOR + 1.750%)               | 3.992%  | 1/2/26        | 2,985,000                 | 2,953,905 (g)(k)(l)     |
| <i>Utilities 0.1%</i>  |         |               |                           |                         |
| <i>Electric Utilities 0.1%</i>   |         |               |                           |                         |
| Panda Temple Power LLC, Second Lien Term Loan (1 mo. LIBOR + 8.000% PIK)                   | 10.148% | 2/7/23        | 691,481                   | 696,668 (b)(d)(g)(k)(l) |
| <b>Total Senior Loans (Cost \$54,872,735)</b>  |         |               |                           | <b>53,944,582</b>       |
| <i>Sovereign Bonds 4.2%</i>  |         |               |                           |                         |
| <i>Argentina 0.9%</i>  |         |               |                           |                         |
| Argentina POM Politica Monetaria, Bonds (Argentina Central Bank 7 Day Repo Reference Rate) | 43.077% | 6/21/20       | 37,190,000 <sup>ARS</sup> | 1,067,332 (g)           |
| Argentine Republic Government International Bond, Senior Notes                             | 5.875%  | 1/11/28       | 5,250,000                 | 4,168,500               |
| Provincia de Buenos Aires, Senior Notes  | 9.125%  | 3/16/24       | 1,000,000                 | 925,900 (a)             |
| <b>Total Argentina</b>   |         |               |                           | <b>6,161,732</b>        |
| <i>Brazil 0.8%</i>   |         |               |                           |                         |
| Brazil Notas do Tesouro Nacional Series F, Notes   | 10.000% | 1/1/21        | 844,000 <sup>BRL</sup>    | 211,448                 |
| Brazil Notas do Tesouro Nacional Series F, Notes   | 10.000% | 1/1/23        | 20,900,000 <sup>BRL</sup> | 5,052,376               |
| <b>Total Brazil</b>  |         |               |                           | <b>5,263,824</b>        |
| <i>Ecuador 0.8%</i>  |         |               |                           |                         |
| Ecuador Government International Bond, Senior Notes  | 10.750% | 3/28/22       | 680,000                   | 725,050 (a)             |
| Ecuador Government International Bond, Senior Notes  | 9.650%  | 12/13/26      | 4,980,000                 | 4,977,261 (a)           |
| <b>Total Ecuador</b>   |         |               |                           | <b>5,702,311</b>        |

See Notes to Financial Statements.

Western Asset High Income Opportunity Fund Inc.

| Security  | Rate   | Maturity Date | Face Amount                | Value                        |
|---|--------|---------------|----------------------------|------------------------------|
| <i>Security</i>                                     |        |               |                            |                              |
| <i>Mexico 0.2%</i>                                  |        |               |                            |                              |
| Mexican Bonos, Bonds                                | 6.500% | 6/9/22        | 34,040,000 <sup>MXN</sup>  | \$ 1,747,419                 |
| <i>Russia 0.9%</i>                                  |        |               |                            |                              |
| Russian Federal Bond OFZ, Bonds                     | 7.050% | 1/19/28       | 470,158,000 <sup>RUB</sup> | 6,576,402                    |
| <i>Ukraine 0.2%</i>                                 |        |               |                            |                              |
| Ukraine Government International Bond, Senior Notes | 7.750% | 9/1/24        | 1,250,000                  | 1,215,658 <sup>(a)</sup>     |
| <i>Uruguay 0.4%</i>                                 |        |               |                            |                              |
| Uruguay Government International Bond, Senior Notes | 9.875% | 6/20/22       | 21,970,000 <sup>UYU</sup>  | 657,367 <sup>(i)</sup>       |
| Uruguay Government International Bond, Senior Notes | 8.500% | 3/15/28       | 79,190,000 <sup>UYU</sup>  | 2,085,237 <sup>(i)</sup>     |
| <i>Total Uruguay</i>                                |        |               |                            | 2,742,604                    |
| <b>Total Sovereign Bonds (Cost \$32,127,439)</b>    |        |               |                            | <b>29,409,950</b>            |
|   |        |               | Shares                     |                              |
| <i>Common Stocks 2.1%</i>                           |        |               |                            |                              |
| <i>Consumer Discretionary 0.4%</i>                  |        |               |                            |                              |
| <i>Hotels, Restaurants &amp; Leisure 0.4%</i>       |        |               |                            |                              |
| Bossier Casino Venture Holdco Inc.                  |        |               | 133,649                    | 3,108,676 <sup>*(c)(d)</sup> |
| <i>Energy 1.5%</i>                                  |        |               |                            |                              |
| <i>Energy Equipment &amp; Services 0.3%</i>         |        |               |                            |                              |
| Hercules Offshore Inc. (Escrow)                     |        |               | 87,452                     | 24,661 <sup>*(c)(d)</sup>    |
| KCAD Holdings I Ltd.                                |        |               | 427,421,041                | 1,809,701 <sup>*(c)(d)</sup> |
| <i>Total Energy Equipment &amp; Services</i>        |        |               |                            | 1,834,362                    |
| <i>Oil, Gas &amp; Consumable Fuels 1.2%</i>         |        |               |                            |                              |
| Berry Petroleum Corp.                               |        |               | 391,651                    | 6,685,483 <sup>*(c)</sup>    |
| Blue Ridge Mountain Resources Inc.                  |        |               | 345,384                    | 1,726,920 <sup>*(c)(d)</sup> |
| MWO Holdings LLC                                    |        |               | 848                        | 0 <sup>*(c)(d)(e)</sup>      |
| <i>Total Oil, Gas &amp; Consumable Fuels</i>        |        |               |                            | 8,412,403                    |
| <b>Total Energy</b>                                 |        |               |                            | <b>10,246,765</b>            |
| <i>Industrials 0.0%</i>                             |        |               |                            |                              |
| <i>Marine 0.0%</i>                                  |        |               |                            |                              |
| Tricer HoldCo, S.C.A.                               |        |               | 86,802                     | 317,695 <sup>*(c)(d)</sup>   |
| <i>Road &amp; Rail 0.0%</i>                         |        |               |                            |                              |
| Jack Cooper Enterprises Inc.                        |        |               | 4,958                      | 0 <sup>*(c)(d)(e)</sup>      |
| <b>Total Industrials</b>                            |        |               |                            | <b>317,695</b>               |
| <i>Utilities 0.2%</i>                               |        |               |                            |                              |
| <i>Electric Utilities 0.2%</i>                      |        |               |                            |                              |
| Panda Temple Power LLC                              |        |               | 46,332                     | 1,117,759 <sup>*(c)(d)</sup> |
| <b>Total Common Stocks (Cost \$22,069,222)</b>      |        |               |                            | <b>14,790,895</b>            |

See Notes to Financial Statements.

## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

| Security  | Rate   |                  | Shares         | Value                 |
|---|--------|------------------|----------------|-----------------------|
| <b>Preferred Stocks 1.2%</b>  |        |                  |                |                       |
| <b>Financials 1.1%</b>  |        |                  |                |                       |
| <i>Banks 0.6%</i>   |        |                  |                |                       |
| GMAC Capital Trust I (3 mo. USD LIBOR + 5.785%)                             | 8.099% |                  | 145,709        | \$ 3,832,147 (g)      |
| <i>Diversified Financial Services 0.5%</i>                                  |        |                  |                |                       |
| Citigroup Capital XIII (3 mo. USD LIBOR + 6.370%)                           | 8.709% |                  | 138,925        | 3,730,136 (g)         |
| <b>Total Financials</b>   |        |                  |                | <b>7,562,283</b>      |
| <b>Industrials 0.1%</b>   |        |                  |                |                       |
| <i>Marine 0.1%</i>  |        |                  |                |                       |
| Tricer Tracking Preferred Equity Certificates (8.000% PIK)                  | 8.000% |                  | 41,662,564     | 416,626 (b)(c)(d)     |
| <b>Total Preferred Stocks (Cost \$10,472,873)</b>                           |        |                  |                | <b>7,978,909</b>      |
|   |        | Maturity<br>Date | Face<br>Amount |                       |
| <b>U.S. Government &amp; Agency Obligations 0.9%</b>                        |        |                  |                |                       |
| <i>U.S. Government Obligations 0.9%</i>                                     |        |                  |                |                       |
| U.S. Treasury Notes   | 2.375% | 1/31/23          | 2,500,000      | 2,442,920             |
| U.S. Treasury Notes   | 2.500% | 3/31/23          | 1,250,000      | 1,226,977             |
| U.S. Treasury Notes   | 1.625% | 5/31/23          | 2,000,000      | 1,886,055             |
| U.S. Treasury Notes   | 2.750% | 8/31/23          | 1,000,000      | 991,348               |
| <b>Total U.S. Government &amp; Agency Obligations (Cost \$6,560,600)</b>    |        |                  |                | <b>6,547,300</b>      |
| <b>Convertible Bonds &amp; Notes 0.8%</b>                                   |        |                  |                |                       |
| <b>Communication Services 0.8%</b>  |        |                  |                |                       |
| <i>Entertainment 0.1%</i>   |        |                  |                |                       |
| Liberty Media Corp., Senior Notes   | 2.125% | 3/31/48          | 880,000        | 871,078 (a)           |
| <i>Interactive Media &amp; Services 0.1%</i>                                |        |                  |                |                       |
| Twitter Inc., Senior Notes  | 1.000% | 9/15/21          | 910,000        | 840,055               |
| <i>Media 0.6%</i>   |        |                  |                |                       |
| DISH Network Corp., Senior Notes  | 2.375% | 3/15/24          | 4,665,000      | 4,152,242             |
| <b>Total Convertible Bonds &amp; Notes (Cost \$5,721,137)</b>               |        |                  |                | <b>5,863,375</b>      |
| <b>Total Investments before Short-Term Investments (Cost \$673,548,258)</b> |        |                  |                | <b>689,165,610</b>    |
|   |        |                  | Shares         |                       |
| <b>Short-Term Investments 0.7%</b>  |        |                  |                |                       |
| Dreyfus Government Cash Management, Institutional Shares (Cost \$5,200,873) | 2.013% |                  | 5,200,873      | 5,200,873             |
| <b>Total Investments 98.8% (Cost \$678,749,131)</b>                         |        |                  |                | <b>694,366,483</b>    |
| Other Assets in Excess of Liabilities 1.2%                                  |        |                  |                | 8,422,775             |
| <b>Total Net Assets 100.0%</b>  |        |                  |                | <b>\$ 702,789,258</b> |

See Notes to Financial Statements.

**Western Asset High Income Opportunity Fund Inc.**

Face amount denominated in U.S. dollars, unless otherwise noted.

\* Non-income producing security.

- (a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors.
- (b) Payment-in-kind security for which the issuer has the option at each interest payment date of making interest payments in cash or additional securities.
- (c) Security is valued in good faith in accordance with procedures approved by the Board of Directors (Note 1).
- (d) Security is valued using significant unobservable inputs (Note 1).
- (e) Value is less than \$1.
- (f) Security has no maturity date. The date shown represents the next call date.
- (g) Variable rate security. Interest rate disclosed is as of the most recent information available. Certain variable rate securities are not based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description above.
- (h) Restricted security (Note 7).
- (i) Security is exempt from registration under Regulation S of the Securities Act of 1933. Regulation S applies to securities offerings that are made outside of the United States and do not involve direct selling efforts in the United States. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors.
- (j) The maturity principal is currently in default as of September 30, 2018.
- (k) Senior loans may be considered restricted in that the Fund ordinarily is contractually obligated to receive approval from the agent bank and/or borrower prior to the disposition of a senior loan.
- (l) Interest rates disclosed represent the effective rates on senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.
- (m) All or a portion of this loan is unfunded as of September 30, 2018. The interest rate for fully unfunded term loans is to be determined.

**Abbreviations used in this schedule:**

|       |                               |
|-------|-------------------------------|
| ARS   | Argentine Peso                |
| BRL   | Brazilian Real                |
| LIBOR | London Interbank Offered Rate |
| MXN   | Mexican Peso                  |
| OJSC  | Open Joint Stock Company      |
| PIK   | Payment-In-Kind               |
| RUB   | Russian Ruble                 |
| UYU   | Uruguayan Peso                |

[See Notes to Financial Statements.](#)



## Schedule of investments (cont d)

September 30, 2018

### Western Asset High Income Opportunity Fund Inc.

At September 30, 2018, the Fund had the following open forward foreign currency contracts:

| Currency<br>Purchased | Currency<br>Sold | Counterparty      | Settlement<br>Date | Unrealized<br>Appreciation<br>(Depreciation) |
|-----------------------|------------------|-------------------|--------------------|--|
| CAD 1,565,000         | USD 1,192,390    | Barclays Bank PLC | 10/18/18           | \$ 19,798                                    |
| EUR 800,000           | USD 937,125      | Barclays Bank PLC | 10/18/18           | (6,792)                                      |
| USD 209,191           | CAD 275,000      | Barclays Bank PLC | 10/18/18           | (3,814)                                      |
| USD 982,133           | CAD 1,290,000    | Barclays Bank PLC | 10/18/18           | (17,050)                                     |
| USD 438,535           | EUR 372,000      | Citibank N.A.     | 10/18/18           | 5,930  |
| USD 563,639           | EUR 478,123      | Citibank N.A.     | 10/18/18           | 7,622  |
| <b>Total</b>          |                  |                   |                    | <b>\$ 5,694</b>                              |

#### Abbreviations used in this table:

|     |                      |
|-----|----------------------|
| CAD | Canadian Dollar      |
| EUR | Euro                 |
| USD | United States Dollar |

See Notes to Financial Statements.

## Statement of assets and liabilities

September 30, 2018

|  |                       |
|--|-----------------------|
| <b>Assets:</b>   |                       |
| Investments, at value (Cost \$678,749,131)   | \$ 694,366,483        |
| Cash   | 3,380,532             |
| Foreign currency, at value (Cost \$172,501)  | 164,820               |
| Interest and dividends receivable  | 10,095,593            |
| Receivable for securities sold   | 7,265,252             |
| Unrealized appreciation on forward foreign currency contracts  | 33,350                |
| Prepaid expenses   | 36,139                |
| <b>Total Assets</b>  | <b>715,342,169</b>    |
| <b>Liabilities:</b>  |                       |
| Payable for securities purchased   | 8,453,032             |
| Distributions payable  | 3,422,112             |
| Investment management fee payable  | 459,968               |
| Directors' fees payable  | 30,513                |
| Unrealized depreciation on forward foreign currency contracts  | 27,656                |
| Accrued expenses   | 159,630               |
| <b>Total Liabilities</b>   | <b>12,552,911</b>     |
| <b>Total Net Assets</b>  | <b>\$ 702,789,258</b> |
| <b>Net Assets:</b>   |                       |
| Par value (\$0.001 par value; 129,136,282 shares issued and outstanding; 500,000,000 shares authorized)            | \$ 129,136            |
| Paid-in capital in excess of par value   | 806,556,087           |
| Overdistributed net investment income  | (3,632,516)           |
| Accumulated net realized loss on investments, forward foreign currency contracts and foreign currency transactions | (115,878,051)         |
| Net unrealized appreciation on investments, forward foreign currency contracts and foreign currencies              | 15,614,602            |
| <b>Total Net Assets</b>  | <b>\$ 702,789,258</b> |
| <b>Shares Outstanding</b>  | <b>129,136,282</b>    |
| <b>Net Asset Value</b>   | <b>\$5.44</b>         |

See Notes to Financial Statements.

## Statement of operations

For the Year Ended September 30, 2018

|   |                      |
|---|----------------------|
| <b>Investment Income:</b>   |                      |
| Interest  | \$ 48,188,350        |
| Dividends   | 819,249              |
| Less: Foreign taxes withheld  | (1,805)              |
| <b>Total Investment Income</b>  | <b>49,005,794</b>    |
| <b>Expenses:</b>  |                      |
| Investment management fee (Note 2)  | 5,692,118            |
| Directors' fees   | 195,564              |
| Transfer agent fees   | 164,832              |
| Legal fees  | 79,355               |
| Stock exchange listing fees   | 66,229               |
| Audit and tax fees  | 59,011               |
| Shareholder reports   | 30,977               |
| Custody fees  | 18,077               |
| Insurance   | 9,975                |
| Interest expense  | 472                  |
| Miscellaneous expenses  | 21,256               |
| <b>Total Expenses</b>   | <b>6,337,866</b>     |
| <b>Net Investment Income</b>  | <b>42,667,928</b>    |
| <b>Realized and Unrealized Gain (Loss) on Investments, Forward Foreign Currency Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):</b> |                      |
| Net Realized Gain (Loss) From:  |                      |
| Investment transactions   | (9,092,982)          |
| Forward foreign currency contracts  | 62,616               |
| Foreign currency transactions   | (164,710)            |
| <b>Net Realized Loss</b>  | <b>(9,195,076)</b>   |
| Change in Net Unrealized Appreciation (Depreciation) From:  |                      |
| Investments   | (18,590,067)         |
| Forward foreign currency contracts  | 5,698                |
| Foreign currencies  | (10,202)             |
| <b>Change in Net Unrealized Appreciation (Depreciation)</b>   | <b>(18,594,571)</b>  |
| <b>Net Loss on Investments, Forward Foreign Currency Contracts and Foreign Currency Transactions</b>  | <b>(27,789,647)</b>  |
| <b>Increase in Net Assets From Operations</b>   | <b>\$ 14,878,281</b> |

See Notes to Financial Statements.

## Statements of changes in net assets

| For the Years Ended September 30,  | 2018                  | 2017                  |
|--|-----------------------|-----------------------|
| <b>Operations:</b>   |                       |                       |
| Net investment income  | \$ 42,667,928         | \$ 44,828,821         |
| Net realized loss  | (9,195,076)           | (5,243,722)           |
| Change in net unrealized appreciation (depreciation)                       | (18,594,571)          | 21,964,707            |
| <i>Increase in Net Assets From Operations</i>                              | <i>14,878,281</i>     | <i>61,549,806</i>     |
| <b>Distributions to Shareholders From (Note 1):</b>                        |                       |                       |
| Net investment income  | (42,116,004)          | (47,055,181)          |
| Return of capital  |                       | (1,148,434)           |
| <i>Decrease in Net Assets From Distributions to Shareholders</i>           | <i>(42,116,004)</i>   | <i>(48,203,615)</i>   |
| <b>Fund Share Transactions:</b>  |                       |                       |
| Cost of shares repurchased (95,929 and 0 shares repurchased, respectively) | (462,283)             |                       |
| <i>Decrease in Net Assets From Fund Share Transactions</i>                 | <i>(462,283)</i>      |                       |
| <i>Increase (Decrease) in Net Assets</i>                                   | <i>(27,700,006)</i>   | <i>13,346,191</i>     |
| <b>Net Assets:</b>   |                       |                       |
| Beginning of year  | 730,489,264           | 717,143,073           |
| <b>End of year*</b>  | <b>\$ 702,789,258</b> | <b>\$ 730,489,264</b> |
| *Includes overdistributed net investment income of:                        | \$(3,632,516)         | \$(4,171,379)         |

See Notes to Financial Statements.

## Financial highlights

| For a share of capital stock outstanding throughout each year ended September 30: |                     |                    |                    |                   |                   |
|---|---------------------|--------------------|--------------------|-------------------|-------------------|
|   | 2018 <sup>1</sup>   | 2017 <sup>1</sup>  | 2016 <sup>1</sup>  | 2015 <sup>1</sup> | 2014 <sup>1</sup> |
| Net asset value, beginning of year  | \$5.65              | \$5.55             | \$5.47             | \$6.31            | \$6.36            |
| <b>Income (loss) from operations:</b>   |                     |                    |                    |                   |                   |
| Net investment income   | 0.33                | 0.35               | 0.39               | 0.41              | 0.43              |
| Net realized and unrealized gain (loss)   | (0.21)              | 0.12               | 0.12               | (0.82)            | (0.04)            |
| <i>Total income (loss) from operations</i>  | <i>0.12</i>         | <i>0.47</i>        | <i>0.51</i>        | <i>(0.41)</i>     | <i>0.39</i>       |
| <b>Less distributions from:</b>   |                     |                    |                    |                   |                   |
| Net investment income   | (0.33)              | (0.36)             | (0.43)             | (0.43)            | (0.44)            |
| Return of capital   |                     | (0.01)             |                    |                   |                   |
| <i>Total distributions</i>  | <i>(0.33)</i>       | <i>(0.37)</i>      | <i>(0.43)</i>      | <i>(0.43)</i>     | <i>(0.44)</i>     |
| Anti-dilutive impact of repurchase plan   | 0.00 <sup>2,3</sup> |                    |                    |                   |                   |
| Net asset value, end of year  | \$5.44              | \$5.65             | \$5.55             | \$5.47            | \$6.31            |
| Market price, end of year   | \$4.76              | \$5.13             | \$5.05             | \$4.69            | \$5.79            |
| <i>Total return, based on NAV<sup>4,5</sup></i>                                   | <i>2.15%</i>        | <i>8.81%</i>       | <i>9.99%</i>       | <i>(6.90)%</i>    | <i>6.17%</i>      |
| <i>Total return, based on Market Price<sup>6</sup></i>                            | <i>(0.84)%</i>      | <i>9.28%</i>       | <i>17.69%</i>      | <i>(12.21)%</i>   | <i>4.28%</i>      |
| Net assets, end of year (millions)  | \$703               | \$730              | \$717              | \$457             | \$528             |
| <b>Ratios to average net assets:</b>  |                     |                    |                    |                   |                   |
| Gross expenses  | 0.89%               | 0.92% <sup>7</sup> | 0.97% <sup>7</sup> | 0.89%             | 0.88%             |
| Net expenses  | 0.89                | 0.92 <sup>7</sup>  | 0.97 <sup>7</sup>  | 0.89              | 0.88              |
| Net investment income   | 6.00                | 6.19               | 7.29               | 6.88              | 6.68              |
| <b>Portfolio turnover rate</b>  | <b>104%</b>         | <b>79%</b>         | <b>67%</b>         | <b>59%</b>        | <b>37%</b>        |

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

<sup>2</sup> The repurchase plan was completed at an average repurchase price of \$4.82 for 95,929 shares and \$462,283 for the year ended September 30, 2018.

<sup>3</sup> Amount represents less than \$0.005 per share.

<sup>4</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

<sup>5</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results.

<sup>6</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

<sup>7</sup> Included in the expense ratios are certain non-recurring reorganization fees that were incurred by the Fund during the period. Without these fees, the gross and net expense ratios would both have been 0.90% and 0.93% for the years ended September 30, 2017 and 2016, respectively.

See Notes to Financial Statements.



## Notes to financial statements

### 1. Organization and significant accounting policies

Western Asset High Income Opportunity Fund Inc. (the Fund) was incorporated in Maryland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund seeks high current income. Capital appreciation is a secondary objective. In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

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

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Prior to December 1, 2017, short-term fixed income securities that would mature in 60 days or less were valued at amortized cost, unless it was determined that using this method would not reflect an investment's fair value. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

## Notes to financial statements (cont'd)

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

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

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

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

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

Level 1 quoted prices in active markets for identical investments

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



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Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

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

| Description                          | ASSETS                     |   |  | Total                 |
|--------------------------------------|----------------------------|---|--|-----------------------|
|                                      | Quoted Prices<br>(Level 1) | Other Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                       |
| Long-term investments :              |                            |   |  |                       |
| Corporate bonds & notes:             |                            |   |  |                       |
| Consumer discretionary               |                            | \$ 42,363,122                                       | \$ 2,278,759                                       | \$ 44,641,881         |
| Energy                               |                            | 115,430,958   | 0*   | 115,430,958           |
| Health care                          |                            | 57,009,547  | 2,697,312  | 59,706,859            |
| Industrials                          |                            | 43,046,958  | 531,819  | 43,578,777            |
| Other corporate bonds & notes        |                            | 307,272,124   |  | 307,272,124           |
| Senior loans:                        |                            |   |  |                       |
| Communication services               |                            | 5,689,064   | 1,208,475  | 6,897,539             |
| Consumer discretionary               |                            | 23,924,249  | 1,054,004  | 24,978,253            |
| Utilities                            |                            |   | 696,668  | 696,668               |
| Other senior loans                   |                            | 21,372,122  |  | 21,372,122            |
| Sovereign bonds                      |                            | 29,409,950  |  | 29,409,950            |
| Common stocks:                       |                            |   |  |                       |
| Consumer discretionary               |                            |   | 3,108,676  | 3,108,676             |
| Energy                               |                            | 6,685,483   | 3,561,282  | 10,246,765            |
| Industrials                          |                            |   | 317,695  | 317,695               |
| Utilities                            |                            |   | 1,117,759  | 1,117,759             |
| Preferred stocks:                    |                            |   |  |                       |
| Financials                           | \$ 7,562,283               |   |  | 7,562,283             |
| Industrials                          |                            |   | 416,626  | 416,626               |
| U.S. government & agency obligations |                            | 6,547,300   |  | 6,547,300             |
| Convertible bonds & notes            |                            | 5,863,375   |  | 5,863,375             |
| <b>Total long-term investments</b>   | <b>7,562,283</b>           | <b>664,614,252</b>                                  | <b>16,989,075</b>                                  | <b>689,165,610</b>    |
| Short-term investments               | 5,200,873                  |   |  | 5,200,873             |
| <b>Total investments</b>             | <b>\$ 12,763,156</b>       | <b>\$ 664,614,252</b>                               | <b>\$ 16,989,075</b>                               | <b>\$ 694,366,483</b> |
| Other financial instruments:         |                            |   |  |                       |
| Forward foreign currency contracts   |                            | \$ 33,350   |  | \$ 33,350             |
| <b>Total</b>                         | <b>\$ 12,763,156</b>       | <b>\$ 664,647,602</b>                               | <b>\$ 16,989,075</b>                               | <b>\$ 694,399,833</b> |

## Notes to financial statements (cont d)

| Description                        | LIABILITIES                |   |  | Total     |
|------------------------------------|----------------------------|---|--|-----------|
|                                    | Quoted Prices<br>(Level 1) | Other Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |           |
| Other financial instruments:       |                            |   |  |           |
| Forward foreign currency contracts |                            | \$ 27,656   |  | \$ 27,656 |

See Schedule of Investments for additional detailed categorizations.

\* Amount represents less than \$1.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

|                                     | Balance<br>as of<br>September 30,<br>2017 | Accrued<br>Premiums/<br>Discounts | Realized<br>Gain (Loss) <sup>1</sup> | Change in<br>Unrealized<br>Appreciation<br>(Depreciation) <sup>2</sup> | Purchases           |
|-------------------------------------|---|-----------------------------------|--------------------------------------|--|---------------------|
| <b>Investments in Securities</b>    |   |                                   |                                      |  |                     |
| <b>Corporate bonds &amp; notes:</b> |   |                                   |                                      |  |                     |
| Consumer discretionary              | \$ 1,913,619                              | \$ 9,849                          |                                      | \$ (9,849)   | \$ 365,140          |
| Energy                              | 0*  |                                   |                                      |  |                     |
| Health care                         | 2,579,120                                 | 4,379                             |                                      | 113,813  |                     |
| Industrials                         |   |                                   |                                      |  |                     |
| Materials                           | 0*  |                                   | \$ (524)                             | 524  |                     |
| <b>Senior loans:</b>                |   |                                   |                                      |  |                     |
| Communication services              |   |                                   |                                      | 2,306  | 1,206,169           |
| Consumer discretionary              | 940,500                                   | 1,119                             |                                      | 329,480  |                     |
| Energy                              | 1,219,528                                 | (5,980)                           | (73,120)                             | 241,494  |                     |
| Utilities                           |   | (17,044)                          |                                      | (151,610)  | 865,322             |
| <b>Common stocks:</b>               |   |                                   |                                      |  |                     |
| Consumer discretionary              | 1,075,874                                 |                                   |                                      | 2,032,802  |                     |
| Energy                              | 2,363,594                                 |                                   |                                      | (529,232)  |                     |
| Industrials                         | 258,670                                   |                                   |                                      | 59,025   |                     |
| Utilities                           |   |                                   |                                      | 98,642   | 1,019,117           |
| <b>Preferred stocks:</b>            |   |                                   |                                      |  |                     |
| Industrials                         | 386,659                                   |                                   |                                      | (870)  | 30,837              |
| <b>Total</b>                        | <b>\$ 10,737,564</b>                      | <b>\$ (7,677)</b>                 | <b>\$ (73,644)</b>                   | <b>\$ 2,186,525</b>  | <b>\$ 3,486,585</b> |

| Investments in Securities<br>(cont d) | Sales                 | Transfers<br>into<br>Level 3 <sup>3</sup> | Transfers<br>out of<br>Level 3 <sup>4</sup> | Balance<br>as of<br>September 30, 2018 | Net Change in<br>Unrealized<br>Appreciation<br>(Depreciation)<br>for Investments<br>in Securities<br>Still Held at<br>September 30, 2018 <sup>2</sup> |
|---------------------------------------|-----------------------|---|---|--|---|
| <b>Corporate bonds &amp; notes:</b>   |                       |   |   |  |   |
| Consumer discretionary                |                       |   |   | \$ 2,278,759                           | \$ (9,849)  |
| Energy                                |                       |   |   | 0*                                     |   |
| Health care                           |                       |   |   | 2,697,312                              | 113,813   |
| Industrials                           |                       | \$ 531,819                                |   | 531,819                                |   |
| Materials                             | \$ (0)*               |   |   |  |   |
| <b>Senior loans:</b>                  |                       |   |   |  |   |
| Communication services                |                       |   |   | 1,208,475                              | 2,306   |
| Consumer discretionary                |                       | 1,054,004                                 | \$ (1,271,099)                              | 1,054,004                              |   |
| Energy                                | (1,381,922)           |   |   |  |   |
| Utilities                             |                       |   |   | 696,668                                | (151,610)   |
| <b>Common stocks:</b>                 |                       |   |   |  |   |
| Consumer discretionary                |                       |   |   | 3,108,676                              | 2,032,802   |
| Energy                                |                       | 1,726,920                                 |   | 3,561,282                              | (529,232)   |
| Industrials                           |                       |   |   | 317,695                                | 59,025  |
| Utilities                             |                       |   |   | 1,117,759                              | 98,642  |
| <b>Preferred stocks:</b>              |                       |   |   |  |   |
| Industrials                           |                       |   |   | 416,626                                | (870)   |
| <b>Total</b>                          | <b>\$ (1,381,922)</b> | <b>\$ 3,312,743</b>                       | <b>\$ (1,271,099)</b>                       | <b>\$ 16,989,075</b>                   | <b>\$ 1,615,027</b>   |

\* Amount represents less than \$1.

<sup>1</sup> This amount is included in net realized gain (loss) from investment transactions in the accompanying Statement of Operations.

<sup>2</sup> This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

<sup>3</sup> Transferred into Level 3 as a result of the unavailability of a quoted price in an active market for an identical investment or the unavailability of other significant observable inputs.

<sup>4</sup> Transferred out of Level 3 as a result of the availability of a quoted price in an active market for an identical investment or the availability of other significant observable inputs.

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its subadviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take

## Notes to financial statements (cont d)

possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Loan participations.** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

**(d) Unfunded loan commitments.** The Fund may enter into certain credit agreements where all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower's discretion. The commitments are disclosed in the accompanying Schedule of Investments. At September 30, 2018, the Fund had sufficient cash and/or securities to cover these commitments.

**(e) Forward foreign currency contracts.** The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency

contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(f) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(g) Credit and market risk.** The Fund invests in high-yield and emerging market instruments that are subject to certain credit and market risks. The yields of high-yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investments in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

**(h) Foreign investment risks.** The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign

## Notes to financial statements (cont d)

investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

**(i) Counterparty risk and credit-risk-related contingent features of derivative instruments.** The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund's subadviser attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the subadviser. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

With exchange traded and centrally cleared derivatives, there is less counterparty risk to the Fund since the exchange or clearinghouse, as counterparty to such instruments, guarantees against a possible default. The clearinghouse stands between the buyer and the seller of the contract; therefore, the credit risk is limited to failure of the clearinghouse. While offset rights may exist under applicable law, the Fund does not have a contractual right of offset against a clearing broker or clearinghouse in the event of a default of the clearing broker or clearinghouse.

The Fund has entered into master agreements, such as an International Swaps and Derivatives Association, Inc. Master Agreement ( ISDA Master Agreement ) or similar agreement, with certain of its derivative counterparties that govern over-the-counter derivatives and provide for general obligations, representations, agreements, collateral posting terms, netting provisions in the event of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund's net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

Under an ISDA Master Agreement, the Fund may, under certain circumstances, offset with the counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. However, absent an event of default by the counterparty or a termination of the agreement, the terms of the ISDA Master Agreements do not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearinghouse for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Schedule of Investments.

As of September 30, 2018, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$27,656. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivative counterparties.

**(j) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income (including interest income from payment-in-kind securities), adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Paydown gains and losses on mortgage- and asset-backed securities are recorded as adjustments to interest income. Dividend income is recorded on the ex-dividend date for dividends received in cash and/or securities. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(k) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

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

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

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of September 30, 2018, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and

## Notes to financial statements (cont d)

federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

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

**(n) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. During the current year, the following reclassifications have been made:

|     | Overdistributed Net<br>Investment<br>Income | Accumulated Net<br>Realized Loss | Paid-in<br>Capital |
|-----|---|----------------------------------|--------------------|
| (a) |   | \$ 49,024,877                    | \$ (49,024,877)    |
| (b) | \$ (13,061)                                 | 13,061                           |                    |

(a) Reclassifications are due to the expiration of a capital loss carryforward.

(b) Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes and differences between book and tax amortization of premium on fixed income securities.

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

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager. Western Asset Management Company, LLC (formerly Western Asset Management Company) ( Western Asset ) and Western Asset Management Company Limited ( Western Asset Limited ) are the Fund's subadvisers. LMPFA, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason, Inc. ( Legg Mason ).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of the Fund's average daily net assets.

LMPFA delegates to Western Asset the day-to-day portfolio management of the Fund. Western Asset Limited provides certain subadvisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated debt securities. Western Asset Limited does not receive any compensation from the Fund and is paid by Western Asset for its services to the Fund. For its services, LMPFA pays Western Asset monthly 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Asset Limited a monthly subadvisory fee in an amount equal to 100% of the management fee paid to Western Asset on the assets that Western Asset allocates to Western Asset Limited to manage.

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



### 3. Investments

During the year ended September 30, 2018, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S. Government & Agency Obligations were as follows:

|           | Investments    | U.S. Government & Agency Obligations |
|-----------|----------------|--------------------------------------|
| Purchases | \$ 656,180,008 | \$ 68,333,562                        |
| Sales     | 642,694,655    | 81,597,163                           |

At September 30, 2018, the aggregate cost of investments and the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

|                                    | Cost           | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Net Unrealized Appreciation |
|------------------------------------|----------------|-------------------------------|-------------------------------|-----------------------------|
| Securities                         | \$ 681,505,965 | \$ 41,042,504                 | \$ (28,181,986)               | \$ 12,860,518               |
| Forward foreign currency contracts |                | 33,350                        | (27,656)                      | 5,694                       |

### 4. Derivative instruments and hedging activities

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at September 30, 2018.

#### ASSET DERIVATIVES<sup>1</sup>

|                                    |                       |           |
|------------------------------------|-----------------------|-----------|
| Forward foreign currency contracts | Foreign Exchange Risk | \$ 33,350 |
|------------------------------------|-----------------------|-----------|

#### LIABILITY DERIVATIVES<sup>1</sup>

|                                    |                       |           |
|------------------------------------|-----------------------|-----------|
| Forward foreign currency contracts | Foreign Exchange Risk | \$ 27,656 |
|------------------------------------|-----------------------|-----------|

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

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the year ended September 30, 2018. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

#### AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

|                                    |                       |           |
|------------------------------------|-----------------------|-----------|
| Forward foreign currency contracts | Foreign Exchange Risk | \$ 62,616 |
|------------------------------------|-----------------------|-----------|

## Notes to financial statements (cont'd)

## CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

|  |                          |
|--|--------------------------|
| Forward foreign currency contracts   | Foreign<br>Exchange Risk |
| During the year ended September 30, 2018, the volume of derivative activity for the Fund was as follows: | \$ 5,698                 |

|  |                         |
|--|-------------------------|
| Forward foreign currency contracts (to buy)  | Average Market<br>Value |
| Forward foreign currency contracts (to sell) | \$ 164,809              |
|  | 820,714                 |

The following table presents the Fund's OTC derivative assets and liabilities by counterparty net of amounts available for offset under an ISDA Master Agreement and net of the related collateral pledged (received) by the Fund as of September 30, 2018.

| Counterparty      | Gross Assets<br>Subject to<br>Master<br>Agreements <sup>1</sup> | Gross<br>Liabilities<br>Subject to<br>Master<br>Agreements <sup>1</sup> | Net Assets<br>(Liabilities)<br>Subject to<br>Master<br>Agreements | Collateral<br>Pledged<br>(Received) | Net<br>Amount <sup>2</sup> |
|-------------------|---|---|---|-------------------------------------|----------------------------|
| Barclays Bank PLC | \$ 19,798   | \$ (27,656)   | \$ (7,858)  |                                     | \$ (7,858)                 |
| Citibank N.A.     | 13,552  |   | 13,552  |                                     | 13,552                     |
| <b>Total</b>      | <b>\$ 33,350</b>  | <b>\$ (27,656)</b>  | <b>\$ 5,694</b>   |                                     | <b>\$ 5,694</b>            |

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

<sup>2</sup> Represents the net amount receivable (payable) from (to) the counterparty in the event of default.

### 5. Distributions subsequent to September 30, 2018

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

| Record Date | Payable Date | Amount    |
|-------------|--------------|-----------|
| 9/21/2018   | 10/1/2018    | \$ 0.0265 |
| 10/19/2018  | 11/1/2018    | \$ 0.0265 |
| 11/23/2018  | 12/3/2018    | \$ 0.0265 |
| 12/21/2018  | 12/31/2018   | \$ 0.0265 |
| 1/18/2019   | 2/1/2019     | \$ 0.0265 |
| 2/15/2019   | 3/1/2019     | \$ 0.0265 |

### 6. Stock repurchase program

On November 16, 2015, the Fund announced that the Fund's Board of Directors (the "Board") had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts.



During the year ended September 30, 2018, the Fund repurchased and retired 0.07% of its common shares outstanding under the repurchase plan. The weighted average discount per share on these repurchases was 12.20% for the year ended September 30, 2018. Shares repurchased and the corresponding dollar amount are included in the Statement of Changes in Net Assets. The antidilutive impact of these share repurchases is included in the Financial Highlights.

Since the commencement of the stock repurchase program through September 30, 2018, the Fund repurchased 95,929 shares or 0.07% of its common shares outstanding for a total amount of \$462,283.

## 7. Restricted securities

The following Fund investment is restricted as to resale.

| Security   | Face Amount  | Acquisition Date | Cost         | Value at 9/30/2018 | Value per Unit | Percent of Net Assets |
|--|--------------|------------------|--------------|--------------------|----------------|-----------------------|
| BioScrip Inc., First Lien Notes, 8.224%, due 6/30/22 | \$ 2,575,000 | 6/17             | \$ 2,554,697 | \$ 2,697,312       | \$ 104.75      | 0.38%                 |

## 8. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended September 30, was as follows:

|                                 | 2018                 | 2017                 |
|---------------------------------|----------------------|----------------------|
| <b>Distributions paid from:</b> |                      |                      |
| Ordinary income                 | \$ 42,116,004        | \$ 47,055,181        |
| Tax return of capital           |                      | 1,148,434            |
| <b>Total distributions paid</b> | <b>\$ 42,116,004</b> | <b>\$ 48,203,615</b> |

As of September 30, 2018, the components of accumulated earnings (losses) on a tax basis were as follows:

|   |                         |
|---|-------------------------|
| Deferred capital losses*                              | \$ (101,433,311)        |
| Capital loss carryforward**                           | (11,684,123)            |
| Other book/tax temporary differences <sup>(a)</sup>   | (3,636,299)             |
| Unrealized appreciation (depreciation) <sup>(b)</sup> | 12,857,768              |
| <b>Total accumulated earnings (losses) net</b>        | <b>\$ (103,895,965)</b> |

\*These capital losses have been deferred in the current year as either short-term or long-term losses. The losses will be deemed to occur on the first day of the next taxable year in the same character as they were originally deferred and will be available to offset future taxable capital gains. These losses must be utilized before any of the Fund's capital loss carryforward may be utilized.

\*\* As of September 30, 2018, the Fund had the following net capital loss carryforward remaining:

| Year of Expiration | Amount          |
|--------------------|-----------------|
| 9/30/2019          | \$ (11,684,123) |

This amount will be available to offset any future taxable capital gains.

<sup>(a)</sup> Other book/tax temporary differences are attributable to the tax deferral of losses on straddles, the realization for tax purposes of unrealized gains/(losses) on certain foreign currency contracts, book/tax difference in the accrual of interest income on securities in default and book/tax differences in the timing of the deductibility of various expenses.

<sup>(b)</sup> The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales and the difference between book and tax amortization methods for premiums on fixed income securities.

## Notes to financial statements (cont d)

### 9. Recent accounting pronouncement

The Fund has made a change in accounting principle and adopted the provisions of Financial Accounting Standards Board ( FASB ) Accounting Standards Update 2017-08 ( ASU 2017-08 ), *Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium; specifically, requiring the premium to be amortized to the earliest call date. Prior to ASU 2017-08, premiums on callable debt securities were generally amortized to maturity date. ASU 2017-08 is intended to more closely align the amortization period with the expectations incorporated into the market pricing on the underlying security. ASU 2017-08 does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity date. Upon evaluation, the Fund has concluded that the change in accounting principle does not materially impact the financial statement amounts.

### 10. Subsequent event

Effective December 1, 2018, LMPFA will implement a voluntary investment management fee waiver of 0.025% that will continue until November 30, 2019.

## Report of independent registered public accounting firm

To the Board of Directors and Shareholders of Western Asset High Income Opportunity Fund Inc.

### Opinion on the financial statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Western Asset High Income Opportunity Fund Inc. (the Fund) as of September 30, 2018, the related statement of operations for the year ended September 30, 2018 and the statement of changes in net assets and the financial highlights for each of the two years in the period ended September 30, 2018, including the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2018, the results of its operations for the year then ended, and the changes in its net assets and financial highlights for each of the two years in the period ended September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the Fund as of and for the year ended September 30, 2016 and the financial highlights for each of the periods ended on or prior to September 30, 2016 (not presented herein, other than the financial highlights) were audited by other auditors whose report dated November 21, 2016 expressed an unqualified opinion on those financial statements and financial highlights.

### Basis for opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of September 30, 2018 by correspondence with the custodian, agent banks, and brokers; when replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Baltimore, MD

November 20, 2018

We have served as the auditor of one or more investment companies in Legg Mason investment company group since at least 1973. We have not determined the specific year we began serving as auditor.

## Additional information (unaudited)

### Information about Directors and Officers

The business and affairs of Western Asset High Income Opportunity Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Jane Trust, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

The Fund's annual proxy statement includes additional information about Directors and is available, without charge, upon request by calling the Fund at 1-888-777-0102.

### Independent Directors

#### Robert D. Agdern

|  |   |
|--|---|
| Year of birth  | 1950  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class I   |
| Term of office <sup>1</sup> and length of time served                          | Since 2015  |
| Principal occupation(s) during past five years                                 | Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University (2002 to 2016); formerly, Deputy General Counsel responsible for western hemisphere matters for BP PLC (1999 to 2001); formerly, Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments (1993 to 1998) (Amoco merged with British Petroleum in 1998 forming BP PLC). |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | None  |

#### Carol L. Colman

|  |   |
|--|---|
| Year of birth  | 1946  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class I |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | President, Colman Consulting Company (consulting)               |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | None  |

#### Daniel P. Cronin

|  |   |
|--|---|
| Year of birth  | 1946  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class I                         |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | None  |



**Independent Directors cont d**

**Paolo M. Cucchi**

|  |   |
|--|---|
| Year of birth  | 1941  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class II  |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | Emeritus Professor of French and Italian (since 2014) and formerly, Vice President and Dean of The College of Liberal Arts (1984 to 2009) and Professor of French and Italian (2009 to 2014) at Drew University |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | None  |

**Leslie H. Gelb**

|  |   |
|--|---|
| Year of birth  | 1937  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class III   |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | Consultant and Lecturer; President Emeritus (since 2003); formerly, Senior Board Fellow (2003 to 2015) and President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994); Trustee, Encyclopedia Britannica; Director, Centre Partners IV and V, LP and Affiliates   |

**William R. Hutchinson**

|  |   |
|--|---|
| Year of birth  | 1942  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class III   |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)  |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994) |

## Additional information (unaudited) (cont d)

### Information about Directors and Officers

#### Independent Directors cont d

##### Eileen A. Kamerick

|  |   |
|--|---|
| Year of birth  | 1958  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class II  |
| Term of office <sup>1</sup> and length of time served                          | Since 2013  |
| Principal occupation(s) during past five years                                 | National Association of Corporate Directors Board Leadership Fellow and financial expert; The University of Chicago Law School (since 2018); Adjunct Professor, Washington University in St. Louis and University of Iowa law schools (since 2007); formerly, Senior Advisor to the Chief Executive Officer and Executive Vice President and Chief Financial Officer of ConnectWise, Inc. (software and services company) (2015 to 2016); Chief Financial Officer, Press Ganey Associates (health care informatics company) (2012 to 2014); Managing Director and Chief Financial Officer, Houlihan Lokey (international investment bank) and President, Houlihan Lokey Foundation (2010 to 2012) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25  |
| Other board memberships held by Director during past five years                | Trustee of AIG Funds and Anchor Series Trust (since 2018); Hochschild Mining plc (precious metals company) (since 2016); Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (2003 to 2016)   |

##### Riordan Roett

|  |  |
|--|--|
| Year of birth  | 1938   |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class III  |
| Term of office <sup>1</sup> and length of time served                          | Since 2007   |
| Principal occupation(s) during past five years                                 | The Sarita and Don Johnston Professor of Political Science and Director of Latin American Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 25   |
| Other board memberships held by Director during past five years                | None   |

**Interested Director and Officer**

**Jane Trust, CFA<sup>2</sup>**

|  |   |
|--|---|
| Year of birth  | 1962  |
| Position(s) held with Fund <sup>1</sup>  | Director, Chairman, President and Chief Executive Officer, Class II   |
| Term of office <sup>1</sup> and length of time served                          | Since 2015  |
| Principal occupation(s) during past five years                                 | Senior Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2018); Managing Director of Legg Mason & Co. (2016 to 2018); Officer and/or Trustee/Director of 147 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2015); President and Chief Executive Officer of LMPFA (since 2015); formerly, Senior Vice President of LMPFA (2015); 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) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 138   |
| Other board memberships held by Director during past five years                | None  |

**Additional Officers**

**Todd F. Kuehl**

Legg Mason

100 International Drive, 9th Floor, Baltimore, MD 21202

|   |   |
|---|---|
| Year of birth   | 1969  |
| Position(s) held with Fund <sup>1</sup>               | Chief Compliance Officer  |
| Term of office <sup>1</sup> and length of time served | Since 2017  |
| Principal occupation(s) during past five years        | Managing Director of Legg Mason & Co. (since 2011); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Chief Compliance Officer of Legg Mason Private Portfolio Group (prior to 2010); formerly, Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002 to 2006) |

**Jenna Bailey**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

|   |  |
|---|--|
| Year of birth   | 1978   |
| Position(s) held with Fund <sup>1</sup>               | Identity Theft Prevention Officer  |
| Term of office <sup>1</sup> and length of time served | Since 2015   |
| Principal occupation(s) during past five years        | 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); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Associate Compliance Officer of Legg Mason & Co. (2011 to 2013) |

## Additional information (unaudited) (cont d)

### Information about Directors and Officers

#### Additional Officers cont d

##### Robert I. Frenkel

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2003

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel U.S. 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)

##### Thomas C. Mandia

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2006

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of LM Asset Services, LLC ( LMAS ) (since 2002) and Legg Mason Fund Asset Management, Inc. ( LMFAM ) (since 2013) (formerly registered investment advisers)

##### Richard F. Sennett

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 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); 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)

**Additional Officers cont d**

**Jennifer S. Berg<sup>3</sup>**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1973

Treasurer

Since 2018

Director of Legg Mason & Co. (since 2014); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2018); formerly, Vice President of Legg Mason & Co. (2011 to 2014)

**Jeanne M. Kelly**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1951

Senior Vice President

Since 2007

Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); President and Chief Executive Officer of LMAS and LMFAM (since 2015); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); formerly, Senior Vice President of LMFAM (2013 to 2015)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act").

<sup>1</sup> The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2020, year 2021 and year 2019, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year, to hold office until their successors are duly elected and qualified.

<sup>2</sup> Ms. Trust is an interested person of the Fund as defined in the 1940 Act because Ms. Trust is an officer of LMPFA and certain of its affiliates.

<sup>3</sup> Effective January 1, 2018, Ms. Berg became Treasurer.

## Annual chief executive officer and principal financial officer certifications (unaudited)

The Fund's Chief Executive Officer ( CEO ) has submitted to the NYSE the required annual certification and the Fund also has included the Certifications of the Fund's CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

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## Other shareholder communications regarding accounting

### matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ( "CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

## Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash (i.e., opt-out), all dividends, including any capital gain dividends and return of capital distributions, on your Common Stock will be automatically reinvested by Computershare Trust Company, N.A., as agent for the stockholders (the Plan Agent), in additional shares of Common Stock under the Fund's Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by Computershare Trust Company, N.A., as dividend paying agent.

If you participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

- (1) If the market price of the Common Stock (plus \$0.03 per share commission) on the payment date (or, if the payment date is not a NYSE trading day, the immediately preceding trading day) is equal to or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date, the Fund will issue new Common Stock at a price equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the payment date or (b) 95% of the market price per share of the Common Stock on the payment date.
- (2) If the net asset value per share of the Common Stock exceeds the market price of the Common Stock (plus \$0.03 per share commission) at the close of trading on the NYSE on the payment date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Stock in the open market, on the NYSE or elsewhere, for your account as soon as practicable commencing on the trading day following the payment date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the payment date for the next succeeding dividend or distribution to be made to the stockholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price (plus \$0.03 per share commission) rises so that it equals or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Stock in the open market and the Fund shall issue the remaining Common Stock at a price per share equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the day prior to the issuance of shares for reinvestment or (b) 95% of the then current market price per share.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan. You may withdraw from the Plan (i.e., opt-out) by notifying the Plan Agent in writing at 462 South 4th Street, Suite 1600, Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151. Such withdrawal will be effective immediately if notice is received by the



Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared dividend or distribution on the Common Stock.

Plan participants who sell their shares will be charged a service charge (currently \$5.00 per transaction) and the Plan Agent is authorized to deduct brokerage charges actually incurred from the proceeds (currently \$0.05 per share commission). There is no service charge for reinvestment of your dividends or distributions in Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional shares of Common Stock, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Stock over time. Dollar cost averaging is a technique for lowering the average cost per share over time if the Fund's net asset value declines. While dollar cost averaging has definite advantages, it cannot assure profit or protect against loss in declining markets.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Investors will be subject to income tax on amounts reinvested under the Plan.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. The Plan may be terminated, amended or supplemented by the Fund upon notice in writing mailed to stockholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the termination or amendment is to be effective. Upon any termination, you will be sent cash for any fractional share of Common Stock in your account. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your Common Stock on your behalf. Additional information about the Plan and your account may be obtained from the Plan Agent at 462 South 4th Street, Suite 1600, Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151.

## Important tax information (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended September 30, 2018:

|   |                                 |                                  |
|---|---------------------------------|----------------------------------|
| Record date:  | Monthly                         | Monthly                          |
| Payable date:   | October 2017 -<br>December 2017 | January 2018 -<br>September 2018 |
| Ordinary income:  |                                 |                                  |
| Qualified dividend income for individuals   | 1.03%                           | 1.78%                            |
| Dividends qualifying for the dividends<br>received deduction for corporations     | 0.73%                           | 1.50%                            |
| <b>The following information is applicable to non-U.S. resident shareholders:</b> |                                 |                                  |

|                  |                                       |  |
|------------------|---------------------------------------|--|
| Record date:     | Monthly                               | Monthly                                |
| Payable date:    | October 2017 through<br>December 2017 | January 2018 through<br>September 2018 |
| Ordinary income* | 55.00%                                | 55.00%                                 |

\* The following percentages of the ordinary income distributions paid by the Fund represent Qualified Net Interest Income and Qualified Short-Term Capital Gains eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations. Please retain this information for your records.

Western Asset

## High Income Opportunity Fund Inc.

### Directors

Robert D. Agdern

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Jane Trust

*Chairman*

### Officers

Jane Trust

*President and Chief Executive Officer*

Richard F. Sennett

*Principal Financial Officer*

Todd F. Kuehl

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Prevention Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

Jennifer S. Berg\*

*Treasurer*

Jeanne M. Kelly

*Senior Vice President*

**Western Asset High Income Opportunity Fund Inc.**

620 Eighth Avenue

49th Floor

New York, NY 10018

**Investment manager**

Legg Mason Partners Fund Advisor, LLC

**Subadvisers**

Western Asset Management Company, LLC

Western Asset Management Company Limited

**Custodian**

The Bank of New York Mellon ( BNY )\*\*

**Transfer agent**

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

Prior to May 2, 2018, known as Western Asset Management Company.

\* Effective January 1, 2018, Ms. Berg became Treasurer.

\*\* Effective April 9, 2018, BNY became custodian.

**Independent registered public accounting firm**

PricewaterhouseCoopers LLP

Baltimore, MD

**Legal counsel**

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

**New York Stock Exchange Symbol**

HIO

## Legg Mason Funds Privacy and Security Notice

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

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

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

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

Personal information included on applications or other forms;

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

Bank account information, legal documents, and identity verification documentation;

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

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

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

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

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

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

Permit access to transfer, whether in the United States or countries outside of the United States to such Funds' employees, agents and affiliates and service providers as required to enable the Funds to conduct ordinary business, or to comply with obligations to government regulators;

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The Funds' representatives such as legal counsel, accountants and auditors to enable the Funds to conduct ordinary business, or to comply with obligations to government regulators;

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

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust. Except as otherwise permitted by applicable law, companies acting on the Funds' behalf, including those outside the United States, are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

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

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

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

### The Funds' Security Practices

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

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

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

Revised April 2018

NOT PART OF THE ANNUAL REPORT



Western Asset High Income Opportunity Fund Inc.

Western Asset High Income Opportunity Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

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

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

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

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

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

**WASX010408 11/18 SR18-3479**

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that Eileen A. Kamerick, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) Audit Fees. The aggregate fees billed in the previous fiscal years ending September 30, 2017 and September 30, 2018 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$73,100 in September 30, 2017 and \$54,094 in September 30, 2018.

(b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in September 30, 2017 and \$0 in September 30, 2018.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$9,170 in September 30, 2017 and \$9,040 in September 30, 2018. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

(d) All Other Fees. The aggregate fees for other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item for the Western Asset High Income Opportunity Fund Inc. were \$0 in September 30, 2017 and \$0 in September 30, 2018.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to Western Asset High Income Opportunity Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the Western Asset High Income Opportunity Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for September 30, 2017 and September 30, 2018; Tax Fees were 100% and 100% for September 30, 2017 and September 30, 2018; and Other Fees were 100% and 100% for September 30, 2017 and September 30, 2018.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset High Income Opportunity Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset High Income Opportunity Fund Inc. during the reporting period were \$160,000 in September 30, 2017 and \$432,645 in September 30, 2018.

(h) Yes. Western Asset High Income Opportunity Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the Western Asset High Income Opportunity Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Robert D. Agdern  
Carol L. Colman  
Daniel P. Cronin  
Paolo M. Cucchi  
Leslie H. Gelb  
William R. Hutchinson  
Eileen A. Kamerick  
Riordan Roett

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

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

**Proxy Voting Policies and Procedures**

**BACKGROUND**

An investment adviser is required to adopt and implement policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( *Advisers Act* ). The authority to vote the proxies of our clients is established through investment management agreements or comparable documents. In addition to SEC requirements governing advisers, long-standing fiduciary standards and responsibilities have been established for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the investment manager.

## **POLICY**

As a fixed income only manager, the occasion to vote proxies is very rare. However, the Firm has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration the Firm's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent the Firm deems appropriate).

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than Western Asset affiliated companies) regarding the voting of any securities owned by its clients.

## **PROCEDURE**

### **Responsibility and Oversight**

The Western Asset Legal and Compliance Department ( Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

### Client Authority

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

### Proxy Gathering

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

### Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

1. Proxies are reviewed to determine accounts impacted.
2. Impacted accounts are checked to confirm Western Asset voting authority.
3. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)
4. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.
5. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into the account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.

6. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

#### Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering, and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

#### Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.

- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
  - d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
  - e. A proxy log including:
    - 1. Issuer name;
    - 2. Exchange ticker symbol of the issuer's shares to be voted;
    - 3. Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
    - 4. A brief identification of the matter voted on;
    - 5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
    - 6. Whether a vote was cast on the matter;
    - 7. A record of how the vote was cast; and
    - 8. Whether the vote was cast for or against the recommendation of the issuer's management team.
- Records are maintained in an easily accessible place for five years, the first two in Western Asset's offices.

#### Disclosure

Western Asset's proxy policies are described in the firm's Part 2A of Form ADV. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

#### Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest.

Issues to be reviewed include, but are not limited to:



1. Whether Western (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
2. Whether Western or an officer or director of Western or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and
3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

#### Voting Guidelines

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

## I. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

### 1. Matters relating to the Board of Directors

Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

- a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.
- b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.
- c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.
- d. Votes are cast on a case-by-case basis in contested elections of directors.

### 2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

- a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.
- b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.

- d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

- a. Western Asset votes for proposals relating to the authorization of additional common stock.
- b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

- c. Western Asset votes for proposals authorizing share repurchase programs.
- 4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions Western Asset votes these issues on a case-by-case basis on board-approved transactions.
- 5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

- a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.
- b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.
- 6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

- a. Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.
- b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

## II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

- a. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.
- b. Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.
- c. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

### III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients' portfolios.
2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

### IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.
2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.
3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.
4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

#### **RETIREMENT ACCOUNTS**

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor ( DOL ) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary. Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL's position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (a) the right to vote proxies has been reserved to a named fiduciary of the client, and (b) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy voting guidelines provided by the client.

## Western Asset Management Company Limited

### Proxy Voting and Corporate Actions Policy

**NOTE: Below policy relating to Proxy Voting and Corporate Actions is a global policy for all Western Asset affiliates. As compliance with the Policy is monitored by Western Asset Pasadena affiliate, the Policy has been adopted from US Compliance Manual and therefore all defined terms are those defined in the US Compliance Manual rather than UK Compliance Manual.**

**As a fixed income only manager, the occasion to vote proxies is very rare. However, the Firm has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.**

While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration the Firm's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent the Firm deems appropriate).

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than Western Asset affiliated companies) regarding the voting of any securities owned by its clients.

### RESPONSIBILITY AND OVERSIGHT

The Western Asset Legal and Compliance Department ( Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

### CLIENT AUTHORITY

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

### PROXY GATHERING

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

## **PROXY VOTING**

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

Proxies are reviewed to determine accounts impacted.

Impacted accounts are checked to confirm Western Asset voting authority.

Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.

Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

## **TIMING**

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

## **RECORDKEEPING**

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

A copy of Western Asset's policies and procedures.



Copies of proxy statements received regarding client securities.

A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.

A proxy log including:

Issuer name;

Exchange ticker symbol of the issuer's shares to be voted;

Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;

A brief identification of the matter voted on;

Whether the matter was proposed by the issuer or by a shareholder of the issuer;

Whether a vote was cast on the matter;

A record of how the vote was cast; and

Whether the vote was cast for or against the recommendation of the issuer's management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset's offices.

## **DISCLOSURE**

Western Asset's proxy policies are described in the firm's Part 2A of Form ADV. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

## **CONFLICT OF INTEREST**

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

Whether Western (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

Whether Western or an officer or director of Western or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

## **VOTING GUIDELINES**

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

## **BOARD APPROVAL PROPOSALS**

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

**Matters relating to the Board of Directors** Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

Votes are cast on a case-by-case basis in contested elections of directors.

**Matters relating to Executive Compensation** Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.

Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.

Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

**Matters relating to Capitalization** The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

Western Asset votes for proposals relating to the authorization of additional common stock;

Western Asset votes for proposals to effect stock splits (excluding reverse stock splits);

Western Asset votes for proposals authorizing share repurchase programs;

Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions;

Western Asset votes these issues on a case-by-case basis on board-approved transactions;

**Matters relating to Anti-Takeover Measures** Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans;

Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

**Other Business Matters** Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws;

Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

### **SHAREHOLDER PROPOSALS**

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans;

Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals;

Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

### **VOTING SHARES OF INVESTMENT COMPANIES**

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios;

Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

#### **VOTING SHARES OF FOREIGN ISSUERS**

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management;

Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees;

Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated;

Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

#### **RETIREMENT ACCOUNTS**

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor ( DOL ) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary.

Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL's position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (a) the right to vote proxies has been reserved to a named fiduciary of the client, and (b) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy

voting guidelines provided by the client.

### **CORPORATE ACTIONS**

Western Asset must pay strict attention to any corporate actions that are taken with respect to issuers whose securities are held in client accounts. For example, Western Asset must review any tender offers, rights offerings, etc., made in connection with securities owned by clients. Western Asset must also act in a timely manner and in the best interest of each client with respect to any such corporate actions.

## Western Asset Management Company Ltd ( WAMJ ) Proxy Voting Policies and Procedures

### POLICY

As a fixed income only manager, the occasion to vote proxies for WAMJ is very rare. However, the Firm has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients.

While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration the Firm's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent the Firm deems appropriate).

In exercising its voting authority, WAMJ will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than Western Asset affiliated companies) regarding the voting of any securities owned by its clients.

### PROCEDURE

#### Responsibility and Oversight

The WAMJ Legal and Compliance Department ( Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Operations ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

#### Client Authority

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority, WAMJ will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

#### Proxy Gathering

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if WAMJ becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If WAMJ personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

#### Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

- a. Proxies are reviewed to determine accounts impacted.



- b. Impacted accounts are checked to confirm WAMJ voting authority.
- c. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)
- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and WAMJ obtains the

client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle), WAMJ seeks voting instructions from an independent third party.

- e. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, WAMJ may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.
- f. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

#### Timing

WAMJ personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

#### Recordkeeping

WAMJ maintains records of proxies. These records include:

- a. A copy of WAMJ's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by WAMJ that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and WAMJ's written response to both verbal and written client requests.
- e. A proxy log including:
  - 1. Issuer name;
  - 2. Exchange ticker symbol of the issuer's shares to be voted;
  - 3.

Committee on Uniform Securities Identification Procedures ( CUSIP ) number for the shares to be voted;

4. A brief identification of the matter voted on;
5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
6. Whether a vote was cast on the matter;
7. A record of how the vote was cast; and
8. Whether the vote was cast for or against the recommendation of the issuer's management team.

Records are maintained in an easily accessible place for five years, the first two in WAMJ's offices.

#### Disclosure

WAMJ's proxy policies are described in the firm's Part 2A of Form ADV. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

## Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
2. Whether Western or an officer or director of Western or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and
3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

## Voting Guidelines

WAMJ's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

### 1b. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, WAMJ generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

#### 1. Matters relating to the Board of Directors

WAMJ votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

- a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

- b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.
- c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.
- d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

WAMJ generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

- a. Except where the firm is otherwise withholding votes for the entire board of directors, WAMJ votes for stock option plans that will result in a minimal annual dilution.
- b. WAMJ votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. WAMJ votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.
- d. Except where the firm is otherwise withholding votes for the entire board of directors, WAMJ votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, WAMJ votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where WAMJ is otherwise withholding votes for the entire board of directors.

- a. WAMJ votes for proposals relating to the authorization of additional common stock.
- b. WAMJ votes for proposals to effect stock splits (excluding reverse stock splits).
- c. WAMJ votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions WAMJ votes these issues on a case-by-case basis on board-approved transactions.

5. Matters relating to Anti-Takeover Measures

WAMJ votes against board-approved proposals to adopt anti-takeover measures except as follows:

- a. WAMJ votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

- b. WAMJ votes on a case-by-case basis on proposals to adopt fair price provisions.

6. Other Business Matters

WAMJ votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

- a. WAMJ votes on a case-by-case basis on proposals to amend a company's charter or bylaws.
- b. WAMJ votes against authorization to transact other unidentified, substantive business at the meeting.

2b. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. WAMJ votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

- a. WAMJ votes for shareholder proposals to require shareholder approval of shareholder rights plans.
- b. WAMJ votes for shareholder proposals that are consistent with WAMJ's proxy voting guidelines for board-approved proposals.
- c. WAMJ votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

### 3b. Voting Shares of Investment Companies

WAMJ may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

WAMJ votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients' portfolios.

WAMJ votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

### 4b. Voting Shares of Foreign Issuers

In the event WAMJ is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. WAMJ votes for shareholder proposals calling for a majority of the directors to be independent of management.
2. WAMJ votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.
3. WAMJ votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

WAMJ votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.



**Western Asset Management Company Pte. Ltd. ( WAMS )**

**Compliance Policies and Procedures**

**Proxy Voting**

WAMS has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and the applicable laws and regulations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts.

While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration the Firm's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent the Firm deems appropriate).

In exercising its voting authority, WAMS will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than Western Asset affiliated companies) regarding the voting of any securities owned by its clients.

**Procedure**

**Responsibility and Oversight**

The Western Asset Legal and Compliance Department is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research and portfolio managers are determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

**Client Authority**

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

**Proxy Gathering**

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipients for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded to their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

**Proxy Voting**

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

1. Proxies are reviewed to determine accounts impacted.
2. Impacted accounts are checked to confirm Western Asset voting authority.
3. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest.  
[See conflicts of interest section of these procedures for further information on determining material conflicts of interest.]

4. If a material conflict of interest exists, (4.1) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (4.2) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.
5. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into the account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.
6. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (4) or (5) and returns the voted proxy as indicated in the proxy materials.

#### Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

#### Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

A copy of Western Asset's policies and procedures.

Copies of proxy statements received regarding client securities.

A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.

A proxy log including:

Issuer name;

Exchange ticker symbol of the issuer's shares to be voted;

Committee on Uniform Securities Identification Procedures ( CUSIP ) number for the shares to be voted;

A brief identification of the matter voted on;

Whether the matter was proposed by the issuer or by a shareholder of the issuer;

Whether a vote was cast on the matter;

A record of how the vote was cast; and

Whether the vote was cast for or against the recommendation of the issuer's management team. Records are maintained in an easily accessible plan for five years, the first two in Western Asset's offices.

#### Disclosure

Western Asset's proxy policies are described in the firm's Part 2A of Form ADV. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

## Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

Whether Western (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

Whether Western or an officer or director of Western or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

## Voting Guidelines

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part 1 deals with proposals which have been approved and are recommended by a company's board of directors; Part 2 deals with proposals submitted by shareholders for inclusion in proxy statements; Part 3 addresses issues relating to voting shares of investment companies; and Part 4 addresses unique considerations pertaining to foreign issuers.

### Part 1 - Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

#### Matters relating to the Board of Directors.

Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

Votes are cast on a case-by-case basis in contested elections of directors.

**Matters relating to Executive Compensation.**

Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

Western Asset votes against stock option plans or proposals that permit replacing or re-pricing of underwater options.

Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.

Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less result in dilution of 10% or less.

#### Matters relating to Capitalization.

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstance of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

Western Asset votes for proposals relating to the authorization of additional common stock.

Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

Western Asset votes for proposals authorizing share repurchase programs.

Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions. Western Asset votes these issues on a case-by-case basis on board-approved transactions.

Matters relating to Anti-Takeover Measures. Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder right plans.

Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

Other Business Matters. Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.

Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

Part 2 - Shareholder Proposals SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy voting statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.

Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.



Part 3 - Voting Shares of Investment Companies Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts 1 and 2 above are voted in accordance with those guidelines.

Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients' portfolios.

Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g. proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

Part 4 - Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance disclosure foreign issuers and therefore apply only where applicable.

Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have pre-emptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have pre-emptive rights.

Retirement Accounts

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor ( DOL ) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary. Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL's position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (1) the right to vote proxies has been reserved to a named fiduciary of the client, and (2) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy voting guidelines provided by the client.

**ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.****(a)(1):**

| <b>NAME AND ADDRESS</b>   | <b>LENGTH OF TIME SERVED</b> | <b>PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS</b>  |
|---|------------------------------|---|
| S. Kenneth Leech<br><br>Western Asset<br>385 East<br>Colorado Blvd.<br>Pasadena, CA<br>91101                | Since 2014                   | Responsible for the day-to-day management with other members of the Fund s 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<br><br>Western Asset<br>385 East<br>Colorado Blvd.<br>Pasadena, CA<br>91101       | Since 2012                   | Responsible for the day-to-day management with other members of the Fund s portfolio management team; employed by Western Asset Management as an investment professional for at least the past five years.  |
| Michael C. Buchanan<br><br>Western Asset<br><br>385 East<br>Colorado Blvd.<br><br>Pasadena, CA<br><br>91101 | Since 2006                   | Responsible for the day-to-day management with other members of the Fund s portfolio management team; formerly, Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset Management   |

**(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL**

The following tables set forth certain additional information with respect to the fund's investment professionals for the fund. Unless noted otherwise, all information is provided as of September 30, 2018.

**Other Accounts Managed by Investment Professionals**

The table below identifies the number of accounts (other than the fund) for which the 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. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

| Name of PM             | Type of Account       | Number of<br>Accounts<br>Managed | Total Assets<br>Managed | Number of<br>Accounts<br>Managed for<br>which<br>Advisory<br>Fee is | Assets<br>Managed for<br>which<br>Advisory Fee<br>is |
|------------------------|-----------------------|----------------------------------|-------------------------|---|--|
|                        |                       |                                  |                         | Performance-<br>Based   | Performance-<br>Based                                |
| S. Kenneth Leech       | Other Registered      |                                  |                         |   |  |
|                        | Investment Companies  | 104                              | \$154.4 billion         | None  | None   |
|                        | Other Pooled Vehicles | 262                              | \$80.5 billion          | 6   | \$1.5 billion  |
|                        | Other Accounts        | 590                              | \$185.5 billion         | 27  | \$11.0 billion                                       |
| Michael C. Buchanan    | Other Registered      |                                  |                         |   |  |
|                        | Investment Companies  | 32                               | \$18.0 billion          | None  | None   |
|                        | Other Pooled Vehicles | 62                               | \$21.3 billion          | 3   | \$936 million  |
|                        | Other Accounts        | 163                              | \$61.2 billion          | 10  | \$3.5 billion  |
| Christopher Kilpatrick | Other Registered      |                                  |                         |   |  |
|                        | Investment Companies  | 9                                | \$3.3 billion           | None  | None   |
|                        | Other Pooled Vehicles | 4                                | \$528 million           | None  | None   |
|                        | Other Accounts        | None                             | None                    | None  | None   |

*The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Leech is involved in the management of all the Firm's portfolios, but they are 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. They are 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.*

**(a)(3): 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, the subadviser's employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, 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. The subadviser 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 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 the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser'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**

The subadviser has adopted compliance policies and procedures to address a wide range of potential conflicts of interest that could directly impact client portfolios. For example, potential conflicts of interest may arise in connection with the management of multiple portfolios (including portfolios managed in a personal capacity). These could include potential conflicts of interest related to the knowledge and timing of a portfolio's trades, investment opportunities and broker selection. Portfolio managers are privy to the size, timing, and possible market impact of a portfolio's trades.

It is possible that an investment opportunity may be suitable for both a portfolio and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the portfolio and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by a

portfolio and another account. A conflict may arise where the portfolio manager may have an incentive to treat an account preferentially as compared to a portfolio because the account pays a performance-based fee or the portfolio manager, the subadviser or an affiliate has an interest in the account. The subadviser has adopted procedures for allocation of portfolio transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. Eligible accounts that can participate in a trade generally share the same price on a pro-rata allocation basis, taking into account differences based on factors such as cash availability, investment restrictions and guidelines, and portfolio composition versus strategy.

With respect to securities transactions, the subadviser determines which broker or dealer to use to execute each order, consistent with their duty to seek best execution of the transaction. However, with respect to certain other accounts (such as pooled investment vehicles that are not registered investment companies and other accounts managed for organizations and individuals), the subadviser may be limited by the client with respect to the selection of brokers or dealers or may be instructed to direct trades through a particular broker or dealer. In these cases, trades for a portfolio in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of a portfolio or the other account(s) involved. Additionally, the management of multiple portfolios and/or other accounts may result in a portfolio manager devoting unequal time and attention to the management of each portfolio and/or other account. The subadviser's team approach to portfolio management and block trading approach seeks to limit this potential risk.

The subadviser also maintains a gift and entertainment policy to address the potential for a business contact to give gifts or host entertainment events that may influence the business judgment of an employee. Employees are permitted to retain gifts of only a nominal value and are required to make reimbursement for entertainment events above a certain value. All gifts (except those of a de minimis value) and entertainment events that are given or sponsored by a business contact are required to be reported in a gift and entertainment log which is reviewed on a regular basis for possible issues.

Employees of the subadviser have access to transactions and holdings information regarding client accounts and the subadviser's overall trading activities. This information represents a potential conflict of interest because employees may take advantage of this information as they trade in their personal accounts. Accordingly, the subadviser maintains a Code of Ethics that is compliant with Rule 17j-1 under the Investment Company Act of 1940, as amended, and Rule 204A-1 under the Investment Advisers Act of 1940, to address personal trading. In addition, the Code of Ethics seeks to establish broader principles of good conduct and fiduciary responsibility in all aspects of the subadviser's business. The Code of Ethics is administered by the Legal and Compliance Department and monitored through the subadviser's compliance monitoring program.

The subadviser may also face other potential conflicts of interest with respect to managing client assets, and the description above is not a complete description of every conflict of interest that could be deemed to exist. The subadviser also maintains a compliance monitoring program and engages independent auditors to conduct a SOC1/ISAE 3402 audit on an annual basis. These steps help to ensure that potential conflicts of interest have been addressed.

**(a)(4): Investment Professional Securities Ownership**

The table below identifies the dollar range of securities beneficially owned by each investment professional as of September 30, 2018.

| <b>Investment Professional(s)</b> | <b>Dollar Range of<br/>Portfolio<br/>Securities<br/>Beneficially<br/>Owned</b> |
|-----------------------------------|--|
| S. Kenneth Leech                  | A  |
| Christopher Kilpatrick            | A  |
| Michael C. Buchanan               | A  |

Dollar Range ownership is as follows:

A: none

B: \$1 - \$10,000

C: 10,001 - \$50,000

D: \$50,001 - \$100,000

E: \$100,001 - \$500,000

F: \$500,001 - \$1 million

G: over \$1 million

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

| Period                           | (a)<br>Total<br>Number<br>of Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid<br>per<br>Share | (c)<br>Total<br>Number<br>of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|----------------------------------|--|---|--|--|
| October 1 through October 31     | 0  | 0   | 0  | 12,923,221   |
| November 1 through November 30   | 0  | 0   | 0  | 12,923,221   |
| December 1 through December 31   | 0  | 0   | 0  | 12,923,221   |
| January 1 through January 31     | 0  | 0   | 0  | 12,923,221   |
| February 1 through February 28   | 0  | 0   | 0  | 12,923,221   |
| March 1 through March 31         | 0  | 0   | 0  | 12,923,221   |
| April 1 through April 30         | 95,929   | \$ 4.82   | 95,929   | 12,827,292   |
| May 1 through May 31             | 0  | 0   | 0  | 12,827,292   |
| June 1 through June 30           | 0  | 0   | 0  | 12,827,292   |
| July 1 through July 31           | 0  | 0   | 0  | 12,827,292   |
| August 1 through August 31       | 0  | 0   | 0  | 12,827,292   |
| September 1 through September 30 | 0  | 0   | 0  | 12,827,292   |
| <b>Total</b>                     |  |   |  |  |

On November 16, 2015, the Fund announced that the Fund's Board of Directors (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts.

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

Not applicable.

**ITEM 11. CONTROLS AND PROCEDURES.**

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



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

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

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

Exhibit 99.CERT

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

Exhibit 99.906CERT

SIGNATURES

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

**Western Asset High Income Opportunity Fund Inc.**

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

Date: November 23, 2018

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

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

Date: November 23, 2018

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

Date: November 23, 2018