

WESTERN ASSET INFLATION-LINKED INCOME FUND  
Form N-CSRS  
July 26, 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 811-21403**

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

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

**Robert I. Frenkel, Esq.**

**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: November 30**

**Date of reporting period: May 31, 2018**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

May 31, 2018

WESTERN ASSET  
INFLATION-LINKED  
INCOME FUND (WIA)



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The Fund's primary investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary investment objective.

## Letter to shareholders

### Dear Shareholder,

We thank you for your investment in Western Asset Inflation-Linked Income Fund (the Fund). As investment adviser for the Fund, we are pleased to submit the Fund's semi-annual shareholder report for the six-month reporting period ended May 31, 2018.

### Special shareholder notice:

On April 27, 2018, Western Asset/Claymore Inflation-Linked Securities & Income Fund (WIA) was renamed Western Asset Inflation-Linked Income Fund. The Fund's common shares continue to trade under its existing New York Stock Exchange symbol and its CUSIP (95766Q106) remains the same. In addition, on February 26, 2018, the Fund announced new management arrangements designed to reduce shareholder expenses and enhance management efficiencies for the Fund. As a result of changes approved by the Fund's Board of Trustees, aggregate annual advisory, administration and servicing fee rates for the Fund are expected to decrease by approximately 16.5 basis points (bps) (1 bps = 0.01%) of total Fund assets, including assets attributable to leverage, on an annual basis.

Shareholder savings on the Fund will result from Western Asset Management Company, LLC (formerly known as Western Asset Management Company) (Western Asset) reducing its contractual investment advisory fee rate from 40 to 35 bps and Legg Mason Partners Fund Advisor, LLC (LMPFA) replacing Security Investors, LLC (Security Investors), and assuming its servicing and administration responsibilities for the Fund, for a total of 5 bps including the services LMPFA already provides to the Fund. These changes were effective April 27, 2018 and were therefore not effective for the entire six-month reporting period. Western Asset's portfolio management team for the Fund, and the Fund's investment strategies, have not changed as a result of restructuring the management arrangements for the Fund.

For the six-month period reporting period ended May 31, 2018, the Fund returned 0.43% based on its net asset value (NAV).

and -0.40% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmarks, the Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index<sup>ii</sup> and the Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index<sup>iii</sup>, returned 0.40% and 0.50%, respectively, for the same period. All Fund returns cited whether based on NAV or market price assume the reinvestment of all distributions, including returns of capital, if any. Past performance does not guarantee future results. The market price of the Fund's shares fluctuates from time to time, and it may be higher or lower than the Fund's NAV. Details of Fund fees and expenses appear elsewhere in this report.

A number of adjustments were made to the Fund during the reporting period. We decreased the Fund's exposures to U.S. Treasury Inflation-Protected Securities ( TIPS )<sup>iv</sup>, while increasing the Fund's allocation to emerging market sovereigns where we found more attractive opportunities. We also increased the Fund's duration<sup>v</sup>, largely in the two- to five-year portion of the yield curve<sup>vi</sup>. However, we pared the Fund's longer duration positions given less attractive valuations.

The Fund employed U.S. Treasury futures and options, including options on futures, Eurodollar futures, Euro-bund futures and Euro-BTP futures during the reporting period to manage its yield curve positioning and interest rate risk, or duration. The use of these derivative instruments generally contributed to performance. Credit default swap ( CDX ) basket contracts were employed to achieve synthetic exposure to the broad investment grade corporate bond market.

Finally, currency forwards and currency futures, which were used to manage the Fund's currency exposures, contributed to performance, benefiting from a diversified exposure to a range of currencies including the yen, euro and Mexican peso.

Leverage was used to increase the Fund's credit bond exposure, which served to add yield to the portfolio. We ended the reporting period with leverage as a percentage of gross assets of roughly 28% versus 28% when the period began.

Several strategies contributed in roughly equal measure to the Fund's absolute performance during the reporting period. These included the Fund's tactical allocation to nominal U.S. Treasuries and Treasury futures as their yields moved higher, investments in commodities, in particular oil, and allocations to both corporate and structured product sectors. Examples of investment grade corporate bonds that aided the Fund's results were Noble Energy and Continental Resources, both of which benefited from rising oil prices. High-yield corporate bonds that benefited performance included Valeant Pharmaceuticals and Oasis Petroleum.

The Fund's exposure to securitized products was also rewarded. In particular, the Fund's allocations to non-agency residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities were beneficial for results as they generated positive returns. Elsewhere, the Fund's allocation to TIPS and its duration positioning contributed to performance. An allocation to emerging markets was also additive to returns.

The largest detractor from the Fund's absolute performance for the reporting period

## Letter to shareholders (cont'd)

was its non-U.S. dollar currency and rate exposures. The main currency detractors included exposures to the Argentine peso, Russian ruble and Brazilian real. The Fund's interest rate risk, or duration and yield curve management, was also a modest headwind for returns. Finally, certain investment grade corporate bonds detracted from returns, such as Southern Copper and Barclays Plc. High-yield corporate bonds that were negative for results included Sanchez Energy and MEG Energy.

As of May 31, 2018, the Fund's market price of \$11.37 per share represented a discount of 12.06% to its NAV of \$12.93 per share. In each month of the reporting period, the Fund provided its investors with a distribution of \$0.0345 per share. The most recent distribution represents an annualized distribution rate of 3.64% based on the Fund's last closing market price of \$11.37 as of May 31, 2018. There is no guarantee of any future distributions or that the current returns and distribution rate will be maintained. Please see Note 1(p) on page 31 for more information on distributions for the period.

The Fund's investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary objective. Under normal market conditions and at the time of purchase, the Fund will:

Invest at least 80% of its total managed assets<sup>viii</sup> in inflation-linked securities

Invest no more than 10% of its total managed assets in assets rated below investment grade at the time of purchase (or, if unrated, assets of comparable quality as determined by management)

Invest at least 60% of its total managed assets in TIPS

Invest no more than 40% of its total managed assets in non-U.S. dollar investments, which gives the Fund the flexibility to invest up to 40% of its total managed assets in non-U.S. dollar inflation-linked securities (no more than 20% of its non-U.S. dollar exposure may be unhedged)

Engage in currency strategies, using instruments such as currency forwards, futures and options, to take long and short foreign currency positions subject to a limit of exposure from such strategies to 40% of total managed assets. This capacity is in addition to the capacity to have 20% unhedged exposure to non-U.S. dollar currencies through the purchase of fixed income securities

Utilize commodity-related strategies for up to 10% of its total managed assets. Exposure to commodities is expected to be achieved through the use of a variety of instruments, such as futures contracts, options and other derivatives, or through investments in exchange-traded products that offer exposure to commodities. The Fund does not expect to hold physical commodities.

Each of the foregoing policies is a non-fundamental policy that may be changed without shareholder approval. The Fund also has the following non-fundamental policy, which, to the extent required by applicable law, may only be changed after notice to shareholders: under normal market conditions, the Fund will invest at least 80% of its total managed assets in inflation-protected securities and non-inflation-protected securities and instruments with



the potential to enhance the Fund's income. To the extent permitted by the foregoing policies, the Fund may invest in emerging market debt securities.

Reverse repurchase agreements and other forms of leverage will not exceed 38% of the Fund's total managed assets. The Fund currently expects that the average effective duration<sup>viii</sup> of its portfolio will range between zero and fifteen years, although this target duration may change from time to time. The portfolio's duration was 6.58 years as of May 31, 2018. The Fund may enter into credit default swap contracts, interest rate swap contracts and total return swap contracts for investment purposes, to manage its credit risk or to add leverage.

In March 2016, the Board of Trustees (the Board) authorized management to repurchase in the open market up to approximately 10% of the Fund's outstanding common shares when the shares are trading at a discount to NAV and when such purchases could enhance shareholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. Although the Fund's shares traded at a discount during the reporting period, in accordance with the Board's authorization of repurchases, management believed that there were more compelling investment opportunities to generate income for shareholders in line with the Fund's primary investment objectives and, accordingly, the Fund did not repurchase any shares during the reporting period.

Shareholders have the opportunity to reinvest their dividends from the Fund through the Dividend Reinvestment Plan (DRIP), which is described in detail on page 40 of this report. In general, if shares are trading at a discount to NAV, the DRIP takes advantage of the discount by reinvesting the monthly dividend distribution in common shares of the Fund purchased in the market at a price less than NAV. Conversely, when the market price of the Fund's common shares is at a premium above NAV, the DRIP reinvests participants' dividends in newly-issued common shares at NAV, subject to an IRS limitation that the purchase price cannot be more than 5% below the market price per share. The DRIP provides a cost-effective means to accumulate additional shares.

We appreciate your investment and look forward to serving your investment needs in the future. For the most up-to-date information on your investment, please call 1-888-777-0102 or visit the Fund's website at [www.lmcef.com](http://www.lmcef.com) (click on the name of the Fund).

Sincerely,

Western Asset Management Company, LLC

June 29, 2018

## Letter to shareholders (cont d)

- <sup>i</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>ii</sup> The Bloomberg Barclays U.S. Government Inflation-Linked 1- 10 Year Index measures the performance of the intermediate U.S. TIPS market.
- <sup>iii</sup> The Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index measures the performance of the U.S. TIPS market. The Index includes TIPS with one or more years remaining maturity with total outstanding issue size of \$500 million or more.
- <sup>iv</sup> U.S. Treasury Inflation-Protected Securities ( TIPS ) are inflation-indexed securities issued by the U.S. Treasury in five-year, ten-year and thirty-year maturities. The principal is adjusted to the Consumer Price Index, the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal.
- <sup>v</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>v</sup> The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- <sup>vii</sup> Total managed assets equals the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage).
- <sup>viii</sup> Effective duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Please note, duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates.

## Investment commentary

### Economic review

Economic activity in the U.S. was somewhat mixed during the six months ended May 31, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that third and fourth quarter 2017 U.S. gross domestic product (GDP) growth was 3.2% and 2.9%, respectively. Finally, the U.S. Department of Commerce's final reading for first quarter 2018 GDP growth released after the reporting period ended was 2.0%. More modest GDP growth in the first quarter reflected decelerations in personal consumption expenditures (PCE), exports, state and local government spending, and federal government spending and a downturn in residential fixed investment. These movements were partly offset by a smaller decrease in private inventory investment and a larger increase in nonresidential fixed investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. When the reporting period ended on May 31, 2018, the unemployment rate was 3.8%, as reported by the U.S. Department of Labor. This was the lowest unemployment rate since April 2000. The percentage of longer-term unemployed declined during the reporting period. In May 2018, 19.4% of Americans looking for a job had been out of work for more than six months, versus

22.9% when the period began.

## Investment commentary (cont d)

### Market review

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

A. The Fed increased the federal funds rate<sup>iii</sup> twice during the reporting period. Looking back, at its meeting that concluded on September 20, 2017 before the reporting period began the Fed kept rates 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%. Finally, at its meeting that concluded on June 13, 2018 after the reporting period ended the Fed raised the federal funds rate to a range between 1.75% and 2.00%.

#### Q. Did Treasury yields trend higher or lower during the reporting period?

A. Both short-term and longer-term Treasury yields moved higher during the six-month reporting period ended May 31, 2018. The yield for the two-year Treasury note began the reporting period at 1.78% equaling its low for the period and ended the period at 2.40%. Its peak for the period of 2.59% occurred on May 22, 2018. The yield for the ten-year Treasury began the reporting period at 2.42% and ended the period at 2.83%. The low for the period of 2.33% occurred on December 6, 2017 and the high for the period of 3.11% took place on May 17, 2018.

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

A. Most spread sectors generally posted weak results during the reporting period. Performance fluctuated given changing expectations for global growth, uncertainties regarding future central bank monetary policy, the signing of the U.S. tax reform bill in December 2017 and concerns over a global trade war. All told, the broad U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Index<sup>iv</sup>, returned -1.04% during the six-month reporting period ended May 31, 2018.

#### Q. What was the inflationary environment during the reporting period?

A. Inflation remained generally well contained during the reporting period. For the six months ended May 31, 2018, the seasonally unadjusted rate of inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U)<sup>v</sup>, was 1.99%. The CPI-U less food and energy was 1.57% over the same period. Inflation-protected securities generated a small gain during the reporting period. For the six months ended May 31, 2018, the Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index<sup>vi</sup> returned 0.49%.

#### Q. How did the high-yield bond market perform over the reporting period?

A. The U.S. high-yield bond market, as measured by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index<sup>vii</sup>, returned 0.06% for the six months ended May 31, 2018. The high-yield market posted a modest gain during the first two months of the reporting period. Those gains were then erased in February and March.

2018. This turnaround was triggered by a number of factors, including fears that the Fed may take a more aggressive approach to rate hikes, trade war concerns and high-profile issues in the technology industry. However, the high yield market then rallied in April 2018 and was relatively flat in May 2018.

**Q. How did the emerging markets debt asset class perform over the reporting period?**

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Global) returned -3.66% during the six months ended May 31, 2018. The asset class produced choppy results during the reporting period. At times it was supported by solid investor demand, less concern over a significant shift in U.S. trade policy and a weakening U.S. dollar. However, at other times it was dragged down by rising U.S. interest rates, periods of investor risk aversion and geopolitical issues. In addition, the U.S. dollar rallied in April and May 2018, negatively impacting the performance of the asset class.

**Performance review**

For the six months ended May 31, 2018, Western Asset Inflation-Linked Income Fund returned 0.43% based on its net asset value (NAV) and -0.40% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index and the Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index, returned 0.40% and 0.50%, respectively, for the same period. The Bloomberg Barclays World Government Inflation-Linked All Maturities Index and the Fund's Custom Benchmark returned -0.40% and 0.27%, respectively, over the same time frame.

During this six-month period, the Fund made distributions to shareholders totaling \$0.21 per share. As of May 31, 2018, the Fund estimates that all of the distributions were sourced from net investment income.\* The performance table shows the Fund's six-month total return based on its NAV and market price as of May 31, 2018. **Past performance is no guarantee of future results.**

**Performance Snapshot as of May 31, 2018**  
(unaudited)

	6-Month
Price Per Share	Total Return**
\$12.93 (NAV)	0.43%
\$11.37 (Market Price)	-0.40%

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

**Fund performance at NAV reflects fee waivers and/or expense reimbursements, without which the performance would have been lower.**

**\*\* Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating**

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

## Investment commentary (cont d)

expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.

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

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

One of the distinguishing features of closed-end funds compared to other investment vehicles is the ability to trade at a premium or discount to NAV. Since the Fund is listed on the NYSE, the share price may trade above (premium) or below (discount) its NAV. Whereas the NAV is reflective of the Fund's underlying investments, the share price is reflective of the overall supply and demand in the marketplace. Historically, the majority of closed-end funds have traded at a discount to NAV. This Fund was no exception to the phenomenon. We believe the Fund's discount may be driven by a number of factors, including the overall closed-end fund market, current distribution rate and muted demand for inflation-linked investment products. While there are actions that may temporarily reduce the discount to NAV, which the Board of Trustees regularly evaluates, we believe that if investor demand for inflation-linked investments increased, that development, among other factors, may help reduce the Fund's share price discount to NAV over time. Western Asset continues to believe the Fund offers investors the opportunity for long-term inflation protection while providing a source of diversification for investors' fixed-income portfolios.

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

Sincerely,

Western Asset Management Company, LLC

June 29, 2018

***RISKS:** Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund is subject to the additional risks associated with inflation protected securities, including liquidity risk, prepayment risk, extension risk and deflation risk. Investments in foreign companies, including emerging markets, involve risks beyond those inherent solely in domestic investments. Leverage may cause a fund to be more volatile than if the fund had not been leveraged, which may increase the risk of investment loss. Derivatives, such as options, futures, forwards and swaps, can be illiquid, create counterparty risk, may disproportionately increase losses, and may have a potentially large impact on fund performance. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than if it invested in other fixed-income securities. International investments are subject to currency fluctuations, as well as social, economic and political risks. These risks are magnified in emerging markets.*

*An investment in the Fund is subject to the following additional risks. Lower grade securities, or equivalent unrated securities, which are commonly known as junk bonds,*

typically entail greater potential price volatility and may be less liquid than higher-rated securities. The Fund may have to apply a greater degree of judgment in establishing a price for lower grade securities for purposes of valuing fund shares. Changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of such securities to make principal and interest payments than is the case for higher grade securities. Lower grade securities are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. These securities may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher rated securities. Lower grade and unrated securities are generally issued by less creditworthy issuers that may have a larger amount of outstanding debt relative to their assets than issuers of higher grade securities. In the event of an issuer's bankruptcy, claims of other creditors may have priority over the claims of lower grade security holders, leaving few or no assets available to repay lower grade security holders. The Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting issuer. Lower grade securities frequently have redemption features that permit an issuer to repurchase the security from the Fund before it matures. If the issuer redeems lower grade securities, the Fund may have to invest the proceeds in securities with lower yields and may lose income. Lower grade and unrated securities involve the risk that the Fund's investment manager may not accurately evaluate the security's comparative rating. Analysis of the creditworthiness of issuers of lower grade and unrated securities may be more complex than for issuers of higher-quality securities. To the extent that the Fund holds lower grade and/or unrated securities, the Fund's success in achieving its investment objectives may depend more heavily on the Fund's investment manager's credit analysis than if the Fund held exclusively higher-quality and rated securities. If changes in the currency exchange rates do not occur as anticipated, the Fund may lose money on currency transactions. The Fund's ability to use currency transactions successfully depends on a number of factors, including the currency transactions being available at prices that are not too costly, the availability of liquid markets and the ability of the Fund to accurately predict the direction of changes in currency exchange rates. Currency exchange rates may be volatile. Currency transactions are subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. The Fund may gain exposure to the commodities markets by investing a portion of its assets in a wholly-owned subsidiary, Western Asset Inflation-Linked Income Fund CFC (the *Subsidiary*), organized under the laws of the Cayman Islands. The Fund and the Subsidiary are deemed *commodity pools* and the investment adviser is considered a *commodity pool operator* with respect to the Fund under the Commodity Exchange Act. The investment adviser, directly or through its affiliates, is therefore subject to dual regulation by the Securities and Exchange Commission (the *SEC*) and the Commodity Futures Trading Commission (the *CFTC*).

Due to recent regulatory changes, additional regulatory requirements may be imposed, and additional expenses may be incurred by the Fund. The regulatory requirements governing the use of commodity futures (which include futures on broad-based securities indexes, interest rate futures and currency futures), options on commodity futures, certain swaps or certain other investments could change at

## Investment commentary (cont d)

any time. Investments by the Fund in commodity-linked derivatives may subject the Fund to greater volatility than investments in traditional securities. The value of commodity-linked derivatives may be affected by changes in overall market movements, commodity index volatility, prolonged or intense speculation by investors, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, other weather phenomena, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. By investing in the Subsidiary, the Fund is indirectly exposed to the risks associated with the Subsidiary's investments. The investments held by the Subsidiary are generally similar to those that are permitted to be held by the Fund and are subject to the same risks that apply to similar investments if held directly by the Fund. The Subsidiary is not registered as an investment company and is not subject to all of the investor protections of the Investment Company Act of 1940 (the "1940 Act"). Changes in the laws of the United States and/or the Cayman Islands could adversely affect the Fund. For example, the Cayman Islands does not currently impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax on the Subsidiary. If Cayman Islands law changes such that the Subsidiary must pay Cayman Islands taxes, shareholders would likely suffer decreased investment returns. The Fund's exposure to commodities markets, including through the Subsidiary, may be limited by its intention to qualify as a regulated investment company for U.S. federal income tax purposes, and may interfere with its ability to qualify as such.

***This material is not intended as a recommendation or as investment advice of any kind, including in connection with rollovers, transfers, and distributions. Such material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. All content has been provided for informational or educational purposes only and is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.***

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.



- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii 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.
- iii 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 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.
- v The Consumer Price Index for All Urban Consumers ( CPI-U ) is a measure of the average change in prices over time of goods and services purchased by households, which covers approximately 87% of the total population and includes, in addition to wage earners and clerical worker households, groups such as professional, managerial and technical workers, the self-employed, short-term workers, the unemployed and retirees and others not in the labor force.
- vi The Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index represents an unmanaged market index made up of U.S. Treasury Inflation-Linked Index securities.
- vii 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.
- viii The JPMorgan Emerging Markets Bond Index Global ( EMBI Global ) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- ix 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.
- x The Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index measures the performance of the intermediate U.S. TIPS market.
- xi The Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index measures the performance of the U.S. TIPS market. The Index includes TIPS with one or more years remaining maturity with total outstanding issue size of \$500 million or more.
- xii The Bloomberg Barclays World Government Inflation-Linked All Maturities Index measures the performance of the major government inflation-linked bond markets.
- xiii The Custom Benchmark is comprised of 90% Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index and 10% Bloomberg Barclays U.S. Credit Index. The Bloomberg Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).



## 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 May 31, 2018 and November 30, 2017 and does not include derivatives such as forward foreign currency contracts, futures contracts and swap contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.  
Represents less than 0.1%.

## Spread duration (unaudited)

Economic exposure May 31, 2017

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. Government Inflation-Linked All Maturities Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage-Backed Securities
WIA	Western Asset Inflation-Linked Income Fund*

\* Formerly, Western Asset/Claymore Inflation-Linked Securities & Income Fund

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## Effective duration (unaudited)

Interest rate exposure May 31, 2018

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. Government Inflation-Linked All Maturities Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage-Backed Securities
WIA	Western Asset Inflation-Linked Income Fund*

\* Formerly, Western Asset/Claymore Inflation-Linked Securities & Income Fund

## Consolidated schedule of investments (unaudited)

May 31, 2018

### Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>U.S. Treasury Inflation Protected Securities 109.5%</b>				
U.S. Treasury Bonds, Inflation Indexed	1.250%	7/15/20	9,154,400	\$ 9,345,445
U.S. Treasury Bonds, Inflation Indexed	0.125%	4/15/22	15,392,250	15,113,770
U.S. Treasury Bonds, Inflation Indexed	2.375%	1/15/25	10,591,360	11,776,482
U.S. Treasury Bonds, Inflation Indexed	2.000%	1/15/26	53,638,124	58,891,227 (a)
U.S. Treasury Bonds, Inflation Indexed	1.750%	1/15/28	32,031,637	35,032,703 (a)
U.S. Treasury Bonds, Inflation Indexed	3.625%	4/15/28	154,293	196,461
U.S. Treasury Bonds, Inflation Indexed	2.500%	1/15/29	7,078,651	8,331,702
U.S. Treasury Bonds, Inflation Indexed	3.875%	4/15/29	7,559,789	9,989,566
U.S. Treasury Bonds, Inflation Indexed	2.125%	2/15/40	3,463,800	4,345,090
U.S. Treasury Bonds, Inflation Indexed	2.125%	2/15/41	3,521,240	4,449,288
U.S. Treasury Bonds, Inflation Indexed	0.625%	2/15/43	1,628,160	1,532,621
U.S. Treasury Bonds, Inflation Indexed	1.375%	2/15/44	17,025,402	18,908,850 (a)
U.S. Treasury Bonds, Inflation Indexed	0.750%	2/15/45	15,006,202	14,461,924
U.S. Treasury Bonds, Inflation Indexed	0.875%	2/15/47	1,395,644	1,385,260
U.S. Treasury Bonds, Inflation Indexed	1.000%	2/15/48	3,035,970	3,117,735
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/19	30,885,580	30,772,172 (a)
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/20	42,626,000	42,293,561 (a)
U.S. Treasury Notes, Inflation Indexed	1.125%	1/15/21	35,786,896	36,396,397 (a)
U.S. Treasury Notes, Inflation Indexed	0.625%	7/15/21	14,515,916	14,616,441
U.S. Treasury Notes, Inflation Indexed	0.125%	7/15/22	24,850,851	24,509,319 (a)
U.S. Treasury Notes, Inflation Indexed	0.125%	1/15/23	23,785,300	23,312,272 (a)
U.S. Treasury Notes, Inflation Indexed	0.375%	7/15/23	2,755,940	2,737,961
U.S. Treasury Notes, Inflation Indexed	0.625%	1/15/24	14,780,905	14,793,437
U.S. Treasury Notes, Inflation Indexed	0.250%	1/15/25	5,183,810	5,049,168
U.S. Treasury Notes, Inflation Indexed	0.625%	1/15/26	21,729,879	21,629,456 (a)
<b>Total U.S. Treasury Inflation Protected Securities (Cost \$414,825,685)</b>				<b>412,988,308</b>
<b>Corporate Bonds &amp; Notes 6.9%</b>				
<b>Consumer Staples 0.4%</b>				
<i>Food Products 0.2%</i>				
MARB Bondco. PLC, Senior Notes	7.000%	3/15/24	900,000	855,000 (b)
<i>Tobacco 0.2%</i>				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	630,000	586,688
<b>Total Consumer Staples</b>				<b>1,441,688</b>
<b>Energy 3.6%</b>				
<i>Energy Equipment &amp; Services 0.0%</i>				
Halliburton Co., Senior Bonds	3.800%	11/15/25	200,000	200,042
<i>Oil, Gas &amp; Consumable Fuels 3.6%</i>				
Anadarko Petroleum Corp., Senior Notes	6.200%	3/15/40	1,330,000	1,541,396

See Notes to Consolidated Financial Statements.

## Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Anadarko Petroleum Corp., Senior Notes	5.550%	3/15/26	200,000	\$ 217,066
Apache Corp., Senior Notes	2.625%	1/15/23	200,000	191,600
Apache Corp., Senior Notes	5.250%	2/1/42	440,000	457,616
Apache Corp., Senior Notes	4.250%	1/15/44	1,310,000	1,211,630
BP Capital Markets PLC, Senior Notes	3.119%	5/4/26	200,000	192,501
Exxon Mobil Corp., Senior Notes	3.043%	3/1/26	200,000	194,923
KazTransGas JSC, Senior Notes	4.375%	9/26/27	2,000,000	1,879,000 <sup>(b)</sup>
MEG Energy Corp., Senior Notes	7.000%	3/31/24	80,000	72,600 <sup>(b)</sup>
Noble Energy Inc., Senior Notes	4.950%	8/15/47	1,590,000	1,657,552
Noble Energy, Inc., Senior Notes	3.900%	11/15/24	200,000	199,442
Oasis Petroleum, Inc., Senior Notes	6.875%	1/15/23	450,000	457,313
Occidental Petroleum Corp., Senior Notes	3.000%	2/15/27	810,000	771,554
Transcontinental Gas Pipe Line Co., LLC, Senior Notes	7.850%	2/1/26	200,000	245,223
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	2,000,000	2,045,000
Williams Cos Inc., Senior Notes	5.750%	6/24/44	1,340,000	1,410,350
YPF Sociedad Anonima, Senior Notes	8.500%	7/28/25	800,000	813,000 <sup>(c)</sup>
<i>Total Oil, Gas &amp; Consumable Fuels</i>				<i>13,557,766</i>
<b>Total Energy</b>				<b>13,757,808</b>
<b>Financials 1.0%</b>				
<i>Banks 0.7%</i>				
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	2,440,000	2,651,975
<i>Diversified Financial Services 0.3%</i>				
ILFC E-Capital Trust II, Ltd. Gtd. Notes ((Highest of 3 mo. USD LIBOR, 10 year U.S. Treasury Constant Maturity Rate and 30 year U.S. Treasury Constant Maturity Rate)+1.800%)	4.890%	12/21/65	1,010,000	968,337 <sup>(b)(d)</sup>
<b>Total Financials</b>				<b>3,620,312</b>
<b>Health Care 1.4%</b>				
<i>Health Care Equipment &amp; Supplies 0.4%</i>				
DJO Finco, Inc./DJO Finance LLC/DJO Finance Corp., Secured Notes	8.125%	6/15/21	1,520,000	1,537,100 <sup>(b)</sup>
<i>Pharmaceuticals 1.0%</i>				
Valeant Pharmaceuticals International Inc., Senior Notes	6.125%	4/15/25	2,380,000	2,210,425 <sup>(b)</sup>

See Notes to Consolidated Financial Statements.

## Consolidated schedule of investments (unaudited) (cont d)

May 31, 2018

### Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Pharmaceuticals continued</i>				
Valeant Pharmaceuticals International Inc., Senior Notes	9.000%	12/15/25	100,000	\$ 105,000 <sup>(b)</sup>
Valeant Pharmaceuticals International Inc., Senior Notes	9.250%	4/1/26	1,280,000	1,346,726 <sup>(b)</sup>
<i>Total Pharmaceuticals</i>				<i>3,662,151</i>
<b>Total Health Care</b>				<b>5,199,251</b>
<i>Materials 0.5%</i>				
<i>Metals &amp; Mining 0.5%</i>				
Barrick Gold Corp., Senior Notes	5.250%	4/1/42	200,000	216,167
Glencore Funding LLC, Senior Notes	4.000%	3/27/27	200,000	191,392 <sup>(b)</sup>
Southern Copper Corp., Senior Notes	5.250%	11/8/42	1,670,000	1,684,798
<b>Total Materials</b>				<b>2,092,357</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$24,929,600)</b>				<b>26,111,416</b>
<i>Collateralized Mortgage Obligations<sup>(e)</sup> 6.3%</i>				
BCAP LLC Trust, 2011-RR5, 11A4 (1 mo. USD LIBOR + 0.150%)	2.047%	5/28/36	1,214,100	1,205,022 <sup>(b)(d)</sup>
Bear Stearns ARM Trust, 2004-9, 24A1	3.931%	11/25/34	28,561	27,940 <sup>(d)</sup>
Bellemeade Re II Ltd., 2016-1A, M2B (1 mo. USD LIBOR + 6.500%)	8.468%	4/25/26	1,687,508	1,738,133 <sup>(b)(d)(f)</sup>
Chase Mortgage Finance Trust, 2007-A1, 2A3	3.876%	2/25/37	8,585	8,707 <sup>(d)</sup>
CSMC Trust, 2014-11R, 9A2 (1 mo. USD LIBOR + 0.140%)	2.037%	10/27/36	2,430,000	1,572,229 <sup>(b)(d)</sup>
Fannie Mae CAS, 2016-C04, 1M1 (1 mo. USD LIBOR + 1.450%)	3.410%	1/25/29	634,122	639,702 <sup>(b)(d)</sup>
Federal Home Loan Mortgage Corp. (FHLMC) Structured Agency Credit Risk Debt Notes, 2017-DNA2 M2 (1 mo. USD LIBOR + 3.450%)	5.410%	10/25/29	1,300,000	1,424,903 <sup>(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2014-C04 1M2 (1 mo. USD LIBOR + 4.900%)	6.860%	11/25/24	1,108,517	1,269,990 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2017-C03, 1M2 (1 mo. USD LIBOR + 3.000%)	4.960%	10/25/29	1,310,000	1,401,373 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2017-C03 1B1 (1 mo. USD LIBOR + 4.850%)	6.810%	10/25/29	1,340,000	1,480,882 <sup>(b)(d)</sup>
FHLMC Multifamily Structured Pass Through Certificates, 20K721, X1	0.337%	8/25/22	151,633,327	1,839,570 <sup>(d)</sup>

See Notes to Consolidated Financial Statements.



## Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Collateralized Mortgage Obligations<sup>(e)</sup> continued</b>				
Freddie Mac REMICS, 204057, IO	3.000%	5/15/27	1,156,099	\$ 96,684
Freddie Mac REMICS, 204085, IO	3.000%	6/15/27	3,246,756	259,406
Government National Mortgage Association (GNMA), 2011-142, IO	0.384%	9/16/46	4,048,225	54,933 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-112, IO	0.277%	2/16/53	1,914,515	40,578 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-152, IO	0.780%	1/16/54	6,403,501	331,131 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-44, IO	0.513%	3/16/49	1,282,121	23,062 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2013-145, IO	1.069%	9/16/44	2,577,433	140,166 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2014-169, IO	0.854%	10/16/56	14,144,195	720,893 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2014-47, IO	0.362%	2/16/48	677,071	17,306 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2014-50, IO	0.848%	9/16/55	1,607,431	88,044 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2015-101, IO	0.878%	3/16/52	24,856,471	1,486,395 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2015-183, IO	0.955%	9/16/57	27,332,688	2,014,509 <sup>(d)</sup>
GSR Mortgage Loan Trust, 2004-11, 1A1	3.853%	9/25/34	82,508	84,002 <sup>(d)</sup>
Merrill Lynch Mortgage Investors Trust Series MLMI, 2004-A1, 2A1	3.681%	2/25/34	10,801	10,860 <sup>(d)</sup>
Morgan Stanley Bank of America Merrill Lynch Trust 2015-C20	3.071%	2/15/48	2,970,000	2,396,227 <sup>(b)</sup>
New Residential Mortgage Loan Trust, 2014-1A, A	3.750%	1/25/54	1,019,013	1,028,110 <sup>(b)(d)</sup>
Nomura Resecuritization Trust, 2015-4R, 2A2 (1 mo. USD LIBOR + 0.306%)	2.037%	10/26/36	2,696,210	2,180,390 <sup>(b)(d)</sup>
RAMP Series Trust, 2004-SL4, A5	7.500%	7/25/32	59,000	48,547
Washington Mutual MSC Mortgage Pass-Through Certificates Series Trust, 2004-RA1, 2A	7.000%	3/25/34	8,997	9,826
<b>Total Collateralized Mortgage Obligations (Cost \$24,290,393)</b>				<b>23,639,520</b>
<b>Sovereign Bonds 4.4%</b>				
<i>Argentina 0.7%</i>				
Republic of Argentina, Bonds (Argentina Central Bank 7 Day Repo Reference Rate)	33.206%	6/21/20	64,160,000 <sup>ARS</sup>	2,687,218 <sup>(d)</sup>

See Notes to Consolidated Financial Statements.

## Consolidated schedule of investments (unaudited) (cont d)

May 31, 2018

## Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face	Value
			Amount	
<i>Chile 1.0%</i> Republic of Chile, Bonds	5.000%	3/1/35	2,330,000,000 <sup>CLP</sup>	\$ 3,667,741
<i>Ecuador 0.5%</i> Republic of Ecuador, Senior Bonds	10.500%	3/24/20	1,520,000	1,573,884 <sup>(b)</sup>
Republic of Ecuador, Senior Bonds	7.950%	6/20/24	520,000	492,050 <sup>(c)</sup>
<i>Total Ecuador</i>				2,065,934
<i>Indonesia 1.2%</i> Indonesia Government International Bond, Senior Notes	4.750%	7/18/47	400,000	382,643 <sup>(b)</sup>
Indonesia Treasury Bond, Senior Notes	7.000%	5/15/27	49,188,000,000 <sup>IDR</sup>	3,532,899
Republic of Indonesia, Senior Notes	5.125%	1/15/45	200,000	201,355 <sup>(b)</sup>
Republic of Indonesia, Senior Notes	4.350%	1/11/48	290,000	266,063
<i>Total Indonesia</i>				4,382,960
<i>Nigeria 0.0%</i> Republic of Nigeria, Senior Notes	6.500%	11/28/27	200,000	197,942 <sup>(b)</sup>
<i>Russia 1.0%</i> Russian Federal Bonds	7.050%	1/19/28	236,150,000 <sup>RUB</sup>	3,738,344
<b>Total Sovereign Bonds (Cost \$18,213,369)</b>				<b>16,740,139</b>
<b>Non-U.S. Treasury Inflation Protected Securities 4.0%</b> <i>Brazil 1.7%</i> Federative Republic of Brazil, Notes	6.000%	8/15/50	10,153,836 <sup>BRL</sup>	2,858,891
Federative Republic of Brazil, Notes	6.000%	8/15/30	12,418,461 <sup>BRL</sup>	3,479,841
<i>Total Brazil</i>				6,338,732
<i>Italy 2.3%</i> Italy Buoni Poliennali Del Tesoro, Senior Bonds	3.100%	9/15/26	6,530,460 <sup>EUR</sup>	8,571,928 <sup>(c)</sup>
<b>Total Non-U.S. Treasury Inflation Protected Securities (Cost \$14,683,681)</b>				<b>14,910,660</b>
<b>Asset-Backed Securities 3.1%</b> Ameriquest Mortgage Securities Inc. Asset-Backed Pass-Through Cdfs Ser, 2005-R10, M5 (1 mo. USD LIBOR + 0.630%)	2.590%	1/25/36	4,660,000	4,260,629 <sup>(d)</sup>
Ameriquest Mortgage Securities Inc. Asset-Backed Pass-Through Cdfs Ser, 2005-R7, M2 (1 mo. USD LIBOR + 0.500%)	2.460%	9/25/35	1,300,000	1,308,328 <sup>(d)</sup>
Conseco Finance Corp., 201997-8, A	6.780%	10/15/27	207,333	210,222
CWHEQ Revolving Home Equity Loan Trust Series, 2005-C, 2A (1 mo. USD LIBOR + 0.180%)	2.099%	7/15/35	782,502	759,747 <sup>(d)</sup>

See Notes to Consolidated Financial Statements.

Western Asset Inflation-Linked Income Fund

Security	Rate	Maturity Date	Face	
			Amount	Value
<b>Asset-Backed Securities continued</b>				
CWHEQ Revolving Home Equity Loan Trust Series, 2006-I, 2A (1 mo. USD LIBOR + 0.140%)	2.059%	1/15/37	1,110,835	\$ 1,057,425 <sup>(d)</sup>
First Franklin Mortgage Loan Trust, 2006-FF15, A5 (1 mo. USD LIBOR + 0.160%)	2.120%	11/25/36	1,545,696	1,513,381 <sup>(d)</sup>
Structured Asset Securities Corp. Mortgage Loan Trust, 2005-WF4, M8 (1 mo. USD LIBOR + 2.625%)	4.585%	11/25/35	2,600,000	2,604,559 <sup>(d)</sup>
<b>Total Asset-Backed Securities (Cost \$10,237,460)</b>				<b>11,714,291</b>
<b>Total Investments before Short-Term Investments (Cost \$507,180,188)</b>				<b>506,104,334</b>
<b>Shares</b>				
<b>Short-Term Investments 3.6%</b>				
Dreyfus Government Cash Management, Institutional Shares (Cost \$13,431,977)	1.677%		13,431,977	13,431,977
<b>Total Investments 137.8% (Cost \$520,612,165)</b>				<b>519,536,311</b>
Liabilities in Excess of Other Assets (37.8)%				(142,454,121)
<b>Total Net Assets 100.0%</b>				<b>\$ 377,082,190</b>

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

- (a) All or a portion of this security is held by the counterparty as collateral for open reverse repurchase agreements.
- (b) 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 Trustees.
- (c) 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 Trustees.
- (d) 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.
- (e) Collateralized mortgage obligations are secured by an underlying pool of mortgages or mortgage pass-through certificates that are structured to direct payments on underlying collateral to different series or classes of the obligations. The interest rate may change positively or inversely in relation to one or more interest rates, financial indices or other financial indicators and may be subject to an upper and/or lower limit.
- (f) Security is valued using significant unobservable inputs (Note 1).

See Notes to Consolidated Financial Statements.



## Consolidated schedule of investments (unaudited) (cont d)

May 31, 2018

### Western Asset Inflation-Linked Income Fund

#### Abbreviations used in this schedule:

ARM	Adjustable Rate Mortgage
ARS	Argentine Peso
BRL	Brazilian Real
CLP	Chilean Peso
EUR	Euro
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
IDR	Indonesian Rupiah
IO	Interest Only
JSC	Joint Stock Company
LIBOR	London Interbank Offered Rate
RUB	Russian Ruble
USD	United States Dollar

At May 31, 2018, the Fund had the following open reverse repurchase agreements:

Counterparty	Rate	Effective Date	Maturity Date	Face Amount of Reverse Repurchase Agreements	Asset Class of Collateral*	Collateral Value
Deutsche Bank	2.110%	5/15/2018	8/15/2018	\$ 149,836,625	U.S Treasury inflation protected securities	\$ 153,678,590

\* Refer to the Consolidated Schedule of Investments for positions held at the counterparty as collateral for reverse repurchase agreements.

See Notes to Consolidated Financial Statements.

Western Asset Inflation-Linked Income Fund

At May 31, 2018, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Notional Amount	Market Value	Unrealized Appreciation (Depreciation)
<b>Contracts to Buy:</b>					
90-Day Eurodollar	62	12/18	\$ 15,333,577	\$ 15,103,200	\$ (230,377)
90-Day Eurodollar	164	12/19	39,872,795	39,833,550	(39,245)
Canadian Dollar	234	6/18	18,269,410	18,068,310	(201,100)
Copper	111	7/18	8,747,024	8,505,375	(241,649)
Euro	83	6/18	12,871,329	12,139,269	(732,060)
Euro-BTP	33	6/18	4,882,174	4,869,011	(13,163)
Gold 100 Ounce	54	8/18	7,058,989	7,045,380	(13,609)
Japanese Yen	35	6/18	4,134,876	4,031,563	(103,313)
Mexican Peso	273	6/18	7,222,441	6,822,270	(400,171)
U.S. Treasury 10-Year Notes	638	9/18	75,645,558	76,841,771	1,196,213
U.S. Treasury 5-Year Notes	501	9/18	56,809,200	57,059,206	250,006
U.S. Treasury Ultra 10-Year Notes	178	9/18	22,633,244	22,845,187	211,944
WTI Crude	158	11/18	10,929,702	10,396,400	(533,302)
WTI Crude	176	12/21	9,477,954	9,812,000	334,046
					(515,780)
<b>Contracts to Sell:</b>					
90-Day Eurodollar	32	9/18	7,854,496	7,805,200	49,296
British Pound	33	6/18	2,875,938	2,742,919	133,019
Euro-Bund	161	9/18	30,464,772	30,506,219	(41,447)
U.S. Treasury Long Bond	145	9/18	20,817,319	21,043,125	(225,806)
U.S. Treasury Ultra Long-Term Bonds	142	9/18	22,354,032	22,649,000	(294,968)
WTI Crude	158	7/18	11,232,310	10,592,320	639,990
					260,084
					\$ (255,696)

**Net unrealized depreciation on open futures contracts**

At May 31, 2018, the Fund had the following open forward foreign currency contracts:

Currency Purchased	Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
CAD 6,000,000	USD 4,773,725		Barclays Bank PLC	7/19/18	\$ (140,428)
GBP 2,415,890	USD 3,452,007		Barclays Bank PLC	7/19/18	(232,373)
MYR 16,400,000	USD 4,231,494		Barclays Bank PLC	7/19/18	(115,928)
RUB 262,860,000	USD 4,201,055		Barclays Bank PLC	7/19/18	(13,869)
USD 4,099,797	CAD 5,240,000		Barclays Bank PLC	7/19/18	53,384
USD 22,939,922	EUR 18,462,491		Barclays Bank PLC	7/19/18	1,271,889
USD 10,383,448	TWD 301,120,000		Barclays Bank PLC	7/19/18	294,013

See Notes to Consolidated Financial Statements.

## Consolidated schedule of investments (unaudited) (cont d)

May 31, 2018

### Western Asset Inflation-Linked Income Fund

Currency		Currency		Counterparty	Settlement	Unrealized
Purchased		Sold			Date	Appreciation (Depreciation)
JPY	880,310	USD	8,244	Citibank N.A.	7/19/18	\$ (123)
MXN	30,840,000	USD	1,663,538	Citibank N.A.	7/19/18	(130,713)
RUB	438,231,000	USD	6,995,466	Citibank N.A.	7/19/18	(14,737)
USD	349,968	EUR	300,000	Citibank N.A.	7/19/18	(2,120)
COP	39,561,710,000	USD	14,089,580	JPMorgan Chase & Co.	7/19/18	(429,166)
INR	245,800,000	USD	3,744,668	JPMorgan Chase & Co.	7/19/18	(122,401)
RUB	348,060,000	USD	5,614,324	JPMorgan Chase & Co.	7/19/18	(69,959)
USD	1,310,623	COP	3,626,100,000	JPMorgan Chase & Co.	7/19/18	58,553
<b>Total</b>						<b>\$ 406,022</b>

#### Abbreviations used in this table:

CAD	Canadian Dollar
COP	Colombian Peso
EUR	Euro
GBP	British Pound
INR	Indian Rupee
JPY	Japanese Yen
MXN	Mexican Peso
MYR	Malaysian Ringgit
RUB	Russian Ruble
TWD	Taiwan Dollar
USD	United States Dollar

At May 31, 2018, the Fund had the following open swap contracts:

Reference Entity	CENTRALLY CLEARED CREDIT DEFAULT SWAPS ON CREDIT INDICES			SELL PROTECTION		
	Notional Amount <sup>2</sup>	Termination Date	Periodic Payments Received by the Fund	Market Value <sup>3</sup>	Upfront Premiums Paid (Received)	Unrealized Depreciation
Markit CDX.NA.IG.30 Index	\$32,170,000	6/20/23	1.000% quarterly	\$494,968	\$571,032	\$(76,064)

See Notes to Consolidated Financial Statements.

**Western Asset Inflation-Linked Income Fund**

- <sup>1</sup> If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.
- <sup>2</sup> The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.
- <sup>3</sup> The quoted market prices and resulting values for credit default swap agreements on asset-backed securities and credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative had the notional amount of the swap agreement been closed/sold as of the period end. Decreasing market values (sell protection) or increasing market values (buy protection) when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

Percentage shown is an annual percentage rate.

[See Notes to Consolidated Financial Statements.](#)



## Consolidated statement of assets and liabilities (unaudited)

May 31, 2018

<b>Assets:</b>	
Investments, at value (Cost \$520,612,165)	\$ 519,536,311
Foreign currency, at value (Cost \$654,738)	601,616
Deposits with brokers for open futures contracts	2,436,413
Interest receivable	2,371,526
Unrealized appreciation on forward foreign currency contracts	1,677,839
Foreign currency collateral for open futures contracts, at value (Cost \$811,736)	815,417
Receivable for securities sold	760,370
Deposits with brokers for centrally cleared swap contracts	628,278
Deposits with brokers for OTC derivatives	530,000
Receivable for open OTC swap contracts	65,234
Prepaid expenses	55,053
<b>Total Assets</b>	<b>529,478,057</b>
<b>Liabilities:</b>	
Payable for open reverse repurchase agreements	149,836,625
Unrealized depreciation on forward foreign currency contracts	1,271,817
Payable for securities purchased	713,912
Payable to broker variation margin on open futures contracts	224,309
Interest payable	149,296
Payable to broker variation margin on centrally cleared swap contracts	95,509
Due to custodian	40,826
Trustees fees payable	8,504
Accrued expenses	55,069
<b>Total Liabilities</b>	<b>152,395,867</b>
<b>Total Net Assets</b>	<b>\$ 377,082,190</b>
<b>Net Assets:</b>	
Common shares, no par value, unlimited number of shares authorized, 29,152,820 shares issued and outstanding	\$ 381,524,996
Overdistributed net investment income	(100,026)
Accumulated net realized loss on investments, futures contracts, swap contracts, forward foreign currency contracts and foreign currency transactions	(3,256,829)
Net unrealized depreciation on investments, futures contracts, swap contracts, forward foreign currency contracts and foreign currencies	(1,085,951)
<b>Total Net Assets</b>	<b>\$ 377,082,190</b>
<b>Shares Outstanding</b>	<b>29,152,820</b>
<b>Net Asset Value</b>	<b>\$ 12.93</b>

See Notes to Consolidated Financial Statements.

## Consolidated statement of operations (unaudited)

For the Six Months Ended May 31, 2018

<b>Investment Income:</b>	
Interest	\$ 6,917,246
Less: Foreign taxes withheld	(19,841)
<b>Total Investment Income</b>	<b>6,897,405</b>
<b>Expenses:</b>	
Interest expense (Note 3)	1,227,201
Investment management fee (Note 2)	1,028,027
Legal fees	538,267
Servicing agent fees (Note 2)	319,430
Administration fees (Note 2)	115,798
Trustees fees	68,088
Transfer agent fees	39,938
Audit and tax fees	35,789
Fund accounting fees	23,329
Commodity pool reports	18,043
Shareholder reports	16,525
Stock exchange listing fees	14,156
Custody fees	5,729
Insurance	3,525
Miscellaneous expenses	9,244
<b>Total Expenses</b>	<b>3,463,089</b>
Less: Fee waivers and/or expense reimbursements (Note 2)	(232,213)
<b>Net Expenses</b>	<b>3,230,876</b>
<b>Net Investment Income</b>	<b>3,666,529</b>
<b>Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Swap Contracts, Forward Foreign Currency Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):</b>	
Net Realized Gain From:	
Investment transactions	985,101
Futures contracts	1,340,210
Swap contracts	208,836
Forward foreign currency contracts	475,004
Foreign currency transactions	44,515
<b>Net Realized Gain</b>	<b>3,053,666</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(6,404,679)
Futures contracts	598,566
Swap contracts	(206,296)
Forward foreign currency contracts	888,588
Foreign currencies	(91,528)
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>(5,215,349)</b>
<b>Net Loss on Investments, Futures Contracts, Swap Contracts, Forward Foreign Currency Contracts and Foreign Currency Transactions</b>	<b>(2,161,683)</b>
<b>Increase in Net Assets From Operations</b>	<b>\$ 1,504,846</b>

See Notes to Consolidated Financial Statements.

## Consolidated statements of changes in net assets

For the Six Months Ended May 31, 2018 (unaudited)  
and the Year Ended November 30, 2017

	2018	2017
<b>Operations:</b>		
Net investment income	\$ 3,666,529	\$ 9,837,920
Net realized gain	3,053,666	10,309,251
Change in net unrealized appreciation (depreciation)	(5,215,349)	3,691,793
<i>Increase in Net Assets From Operations</i>	<i>1,504,846</i>	<i>23,838,964</i>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(6,034,634)	(11,704,857)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(6,034,634)</i>	<i>(11,704,857)</i>
<b>Capital Contribution:</b>		
Payment by servicing agent (Note 2)		350,000
<i>Increase (Decrease) in Net Assets</i>	<i>(4,529,788)</i>	<i>12,484,107</i>
<b>Net Assets:</b>		
Beginning of period	381,611,978	369,127,871
<b>End of period*</b>	<b>\$ 377,082,190</b>	<b>\$ 381,611,978</b>
*Includes (overdistributed) undistributed net investment income, respectively, of:	\$(100,026)	\$2,268,079

Amount has been revised as described in Note 9 in the Notes to Financial Statements.

See Notes to Consolidated Financial Statements.

## Consolidated statement of cash flows (unaudited)

For the Six Months Ended May 31, 2018

### Increase (Decrease) in Cash:

#### Cash Provided (Used) by Operating Activities:

Net increase in net assets resulting from operations	\$ 1,504,846
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(95,224,943)
Sales of portfolio securities	93,029,966
Net purchases, sales and maturities of short-term investments	(3,319,566)
Net inflation adjustment	(4,503,716)
Net amortization of premium (accretion of discount)	1,513,794
Decrease in receivable from servicing agent	350,000
Increase in receivable for securities sold	(760,370)
Increase in interest receivable	(186,215)
Decrease in receivable from broker variation margin on centrally cleared swap contracts	11,835
Increase in prepaid expenses	(42,749)
Increase in receivable for open OTC swap contracts	(65,234)
Decrease in foreign currency collateral for open futures contracts	197,766
Increase in deposits with brokers for open futures contracts	(681,052)
Increase in deposits with brokers for OTC swap contracts	(470,000)
Increase in deposits with brokers for centrally cleared swap contracts	(109,310)
Increase in payable to broker variation margin on centrally cleared swap contracts	95,509
Increase in payable for securities purchased	713,912
Decrease in investment management fee payable	(173,246)
Decrease in service agent fees payable	(64,967)
Decrease in Trustees fee payable	(10,724)
Decrease in administration fee payable	(18,493)
Increase in interest payable	61,718
Decrease in accrued expenses	(63,443)
Increase in payable to broker variation margin on open futures contracts	39,965
Net realized gain on investments	(985,101)
Change in net unrealized appreciation (depreciation) of investments and forward foreign currency transactions	5,516,091
<b>Net Cash Provided by Operating Activities*</b>	<b>(3,643,727)</b>
<b>Cash Flows From Financing Activities:</b>	
Distributions paid on common stock	(6,034,634)
Increase in due to custodian	40,826
Increase in payable for reverse repurchase agreements	3,873,800
<b>Net Cash Used in Financing Activities</b>	<b>(2,120,008)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(5,763,735)</b>
Cash at Beginning of Period	6,365,351
Cash at End of Period	\$601,616

\* Included in operating expenses is cash of \$1,165,483 paid for interest on borrowings.

See Notes to Consolidated Financial Statements.

## Consolidated financial highlights

For a share of common stock outstanding throughout each year ended November 30, unless otherwise noted:

	2018 <sup>1,2</sup>	2017 <sup>1</sup>	2016 <sup>1,3</sup>	2015 <sup>1,4</sup>	2014 <sup>1,4</sup>	2013 <sup>1,4</sup>	2012 <sup>1,4</sup>
Net asset value, beginning of period	\$ 13.09	\$ 12.66	\$ 12.47	\$ 13.21	\$ 13.14	\$ 14.73	\$ 14.14
<b>Income (loss) from operations:</b>							
Net investment income	0.13	0.34 <sup>5</sup>	0.27	0.07	0.29	0.10	0.26
Net realized and unrealized gain (loss)	(0.08)	0.48 <sup>5</sup>	0.27	(0.46)	0.20	(1.31)	0.68
<b>Total income (loss) from operations</b>	<b>0.05</b>	<b>0.82</b>	<b>0.54</b>	<b>(0.39)</b>	<b>0.49</b>	<b>(1.21)</b>	<b>0.94</b>
<b>Less distributions from:</b>							
Net investment income	(0.21) <sup>6</sup>	(0.40)	(0.23)	(0.10)	(0.35)	(0.11)	(0.35)
Net realized gains				(0.00) <sup>7</sup>	(0.07)	(0.27)	
Return of capital			(0.12)	(0.26)			
<b>Total distributions</b>	<b>(0.21)</b>	<b>(0.40)</b>	<b>(0.35)</b>	<b>(0.35)</b>	<b>(0.42)</b>	<b>(0.38)</b>	<b>(0.35)</b>
Payment by servicing agent		0.01					
Net asset value, end of period	\$ 12.93	\$ 13.09	\$ 12.66	\$ 12.47	\$ 13.21	\$ 13.14	\$ 14.73
Market price, end of period	\$ 11.37	\$ 11.62	\$ 11.23	\$ 10.57	\$ 11.60	\$ 11.42	\$ 13.11
<b>Total return, based on NAV<sup>8,9</sup></b>	<b>0.43%</b>	<b>6.77%<sup>10</sup></b>	<b>4.28%</b>	<b>(3.00)%</b>	<b>3.68%</b>	<b>(8.29)%</b>	<b>6.72%</b>
<b>Total return, based on Market Price<sup>11</sup></b>	<b>(0.40)%</b>	<b>7.15%</b>	<b>9.61%</b>	<b>(5.95)%</b>	<b>5.20%</b>	<b>(10.15)%</b>	<b>6.54%</b>
Net assets, end of period (millions)	\$ 377	\$ 382	\$ 369	\$ 363	\$ 385	\$ 383	\$ 430
<b>Ratios to average net assets:</b>							
Gross expenses	1.83% <sup>12</sup>	1.44%	1.33% <sup>12</sup>	1.10%	0.89%	0.74%	0.70%
Net expenses	1.70 <sup>12,13</sup>	1.44	1.33 <sup>12</sup>	1.10	0.89	0.74	0.70
Net investment income	1.93 <sup>12</sup>	2.63 <sup>5</sup>	2.33 <sup>12</sup>	0.50	2.17	0.72	1.79
<b>Portfolio turnover rate</b>	<b>18%</b>	<b>59%</b>	<b>88%</b>	<b>59%</b>	<b>30%</b>	<b>65%</b>	<b>73%</b>

See Notes to Consolidated Financial Statements.

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

<sup>2</sup> For the six months ended May 31, 2018 (unaudited).

<sup>3</sup> For the period January 1, 2016 through November 30, 2016.

<sup>4</sup> For the year ended December 31.

<sup>5</sup> Amount has been revised as described in Note 9 in the Notes to Financials.

<sup>6</sup> The actual source of the Fund's current fiscal year distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year.

<sup>7</sup> Amount represents less than \$0.005 per share.

<sup>8</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>9</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>10</sup> The total return includes payment by the servicing agent. Without this payment, the total return would have been 6.69% for the year ended November 30, 2017.

<sup>11</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>12</sup> Annualized.

<sup>13</sup> Reflects fee waivers.

[See Notes to Consolidated Financial Statements.](#)

## Notes to consolidated financial statements (unaudited)

### 1. Organization and significant accounting policies

Western Asset Inflation-Linked Income Fund (formerly, Western Asset/Claymore Inflation-Linked Securities & Income Fund) (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company. The Fund commenced operations on September 26, 2003.

The Fund's primary investment objective is to provide current income for its shareholders. Capital appreciation, when consistent with current income, is a secondary investment objective.

The Fund may gain exposure to the commodities markets by investing a portion of its assets in a wholly-owned subsidiary, Western Asset Inflation-Linked Income Fund CFC (formerly, Western Asset/Claymore Inflation-Linked Securities & Income Fund CFC) (the Subsidiary), organized under the laws of the Cayman Islands. Among other investments, the Subsidiary may invest in commodity-linked instruments. The Fund may invest up to 25% of its total assets in the Subsidiary; although 10% of total managed assets may be utilized for commodity-related strategies. These financial statements are consolidated financial statements of the Fund and the Subsidiary.

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. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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 Trustees.

The Board of Trustees 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 Trustees, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Trustees. 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 Trustees, 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 Trustees 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.



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

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

Level 1 quoted prices in active markets for identical investments

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

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
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 (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-Term Investments :				
U.S. Treasury Inflation Protected Securities		\$ 412,988,308		\$ 412,988,308
Corporate Bonds & Notes		26,111,416		26,111,416
Collateralized Mortgage Obligations		21,901,387	\$ 1,738,133	23,639,520
Sovereign Bonds		16,740,139		16,740,139
Non-U.S. Treasury Inflation Protected Securities		14,910,660		14,910,660
Asset-Backed Securities		11,714,291		11,714,291
Total Long-Term Investments		504,366,201	1,738,133	506,104,334
Short-Term Investments	\$ 13,431,977			13,431,977
<b>Total Investments</b>	<b>\$ 13,431,977</b>	<b>\$ 504,366,201</b>	<b>\$ 1,738,133</b>	<b>\$ 519,536,311</b>
Other Financial Instruments:				
Futures Contracts	2,814,514			2,814,514
Forward Foreign Currency Contracts		1,677,839		1,677,839
<b>Total Other Financial Instruments</b>	<b>\$ 2,814,514</b>	<b>\$ 1,677,839</b>		<b>\$ 4,492,353</b>
<b>Total</b>	<b>\$ 16,246,491</b>	<b>\$ 506,044,040</b>	<b>\$ 1,738,133</b>	<b>\$ 524,028,664</b>

Description	LIABILITIES			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other Financial Instruments:				
Futures Contracts	\$ 3,070,210			\$ 3,070,210
Forward Foreign Currency Contracts		\$ 1,271,817		1,271,817
Centrally Cleared Credit Default Swaps on Credit Indices Sell Protection		76,064		76,064
<b>Total</b>	<b>\$ 3,070,210</b>	<b>\$ 1,347,881</b>		<b>\$ 4,418,091</b>

See Consolidated Schedule of Investments for additional detailed categorizations.

**(b) Purchased options.** When the Fund purchases an option, an amount equal to the premium paid by the Fund is recorded as an investment on the Consolidated Statement of Assets and Liabilities, the value of which is marked-to-market to reflect the current market value of the option purchased. If the purchased option expires, the Fund realizes a loss equal to the amount of premium paid. When an instrument is purchased or sold through the exercise of an option, the related premium paid is added to the basis of the instrument acquired or deducted from the proceeds of the instrument sold. The risk associated with purchasing put and call options is limited to the premium paid.

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

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

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

**(d) 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

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

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.

Non-deliverable forward foreign currency exchange contracts are settled with the counter-party in cash without the delivery of foreign currency.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Consolidated 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.

**(e) Swap agreements.** The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with other portfolio transactions. Swap agreements are privately negotiated in the over-the-counter market and may be entered into as a bilateral contract ( OTC Swaps ) or centrally cleared ( Centrally Cleared Swaps ). Unlike Centrally Cleared Swaps, the Fund has credit exposure to the counterparties of OTC Swaps.

In a Centrally Cleared Swap, immediately following execution of the swap, the swap agreement is submitted to a clearinghouse or central counterparty (the CCP ) and the CCP becomes the ultimate counterparty of the swap agreement. The Fund is required to interface with the CCP through a broker, acting in an agency capacity. All payments are settled with the CCP through the broker. Upon entering into a Centrally Cleared Swap, the Fund is required to deposit initial margin with the broker in the form of cash or securities.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of Centrally Cleared Swaps, if any, is recorded as a receivable or payable for variation margin on the Consolidated Statement of Assets and Liabilities. Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Consolidated Schedule of Investments and restricted cash, if any, is identified on the Consolidated Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Consolidated Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Consolidated Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Consolidated Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Consolidated Statement of Operations.

The Fund's maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount.

As of May 31, 2018, the total notional value of all credit default swaps to sell protection was \$32,170,000. This amount would be offset by the value of the swap's reference entity, upfront premiums received on the swap and any amounts received from the settlement of a credit default swap where the Fund bought protection for the same referenced security/ entity.

For average notional amounts of swaps held during the six months ended May 31, 2018, see Note 4.

#### Credit default swaps

The Fund enters into credit default swap ( CDS ) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the

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

agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Consolidated Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counter-party to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Consolidated Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

**(f) Stripped securities.** The Fund may invest in Stripped Securities, a term used collectively for components, or strips, of fixed income securities. Stripped Securities can be principal only securities ( PO ), which are debt obligations that have been stripped of unmatured interest coupons, or interest only securities ( IO ), which are unmatured interest coupons that have been stripped from debt obligations. The market value of Stripped Securities will fluctuate in response to changes in economic conditions, rates of pre-payment, interest rates and the market's perception of the securities. However, fluctuations in response to interest rates may be greater in Stripped Securities than for debt obligations of comparable maturities that pay interest currently. The amount of fluctuation may increase with a longer period of maturity.

The yield to maturity on IO's is sensitive to the rate of principal repayments (including prepayments) on the related underlying debt obligation and principal payments may have a material effect on yield to maturity. If the underlying debt obligation experiences greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IO's.

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

**(h) Reverse repurchase agreements.** The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed upon time and price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations. If the market value of the collateral declines during the period, the Fund may be required to post additional collateral to cover its obligation. Cash collateral that has been pledged to cover obligations of the Fund under reverse repurchase agreements, if any, will be reported separately in the Consolidated Statement of Assets and Liabilities. Securities pledged as collateral are noted in the Consolidated Schedule of Investments. Interest payments made on reverse repurchase agreements are recognized as a component of Interest expense on the Consolidated Statement of Operations. In periods of increased demand for the security, the Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund. At May 31, 2018, the Fund held collateral received for reverse repurchase agreements from Deutsche Bank in the amount of \$1,431,000.

**(i) Inflation-indexed bonds.** Inflation-indexed bonds are fixed-income securities whose principal value or interest rate is periodically adjusted according to the rate of inflation. As the index measuring inflation changes, the principal value or interest rate of

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

inflation-indexed bonds will be adjusted accordingly. Inflation adjustments to the principal amount of inflation-indexed bonds are reflected as an increase or decrease to investment income on the Consolidated Statement of Operations. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

**(j) Cash flow information.** The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Consolidated Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Consolidated Statement of Cash Flows.

**(k) 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.

**(l) 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.

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

**(m) 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 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.

**(n) 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 investment adviser 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 investment manager. 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



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

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 Consolidated 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 Consolidated Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Consolidated Schedule of Investments.

As of May 31, 2018, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$1,271,817. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties. As of May 31, 2018, the Fund had posted with its counterparties cash and/or securities as collateral to cover the net liability of these derivatives amounting to \$530,000, which could be used to reduce the required payment.

At May 31, 2018, the Fund held collateral from Barclays Bank PLC in the amount of \$179,936. This amount could be used to reduce the Fund's exposure to the counterparty in the event of default.

**(o) 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. 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.

**(p) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which rate may be adjusted from time to time by the Fund's Board of Trustees. Under the Fund's Managed Distribution Policy, if, for any monthly distribution, the value of the Fund's net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund's net assets (and may constitute a return of capital). Shareholders will be informed of the tax characteristics of the distributions after the close of the 2018 fiscal year. The Board of Trustees may modify, terminate or suspend the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such modification, termination or suspension could have an adverse effect on the market price of the Fund's shares. 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.

**(q) 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.

**(r) 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 November 30, 2017, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

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

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

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

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

The Fund has entered into an Investment Management Agreement with Western Asset Management Company, LLC (formerly, Western Asset Management Company) (Western Asset or the Investment Adviser), which provides for payment of a monthly fee computed at the annual rate of 0.35% of the Fund's average weekly assets. Prior to April 27, 2018, the Investment Management Agreement provided for payment of a monthly fee computed at the annual rate of 0.40% of the Fund's average weekly assets. Average weekly assets means the average weekly value of the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating average weekly assets, liabilities associated with any instrument or transactions used by the Investment Adviser to leverage the Fund's portfolio (whether or not such instruments or transactions are covered as described in the prospectus) are not considered a liability.

During periods when the Fund is using leverage, the fee paid to the Investment Adviser for advisory services will be higher than if the Fund did not use leverage because the fee paid will be calculated on the basis of the Fund's average weekly assets, which includes the assets attributable to leverage.

Western Asset Management Company Pte. Ltd. (Western Asset Singapore), Western Asset Management Company Limited (Western Asset London) and Western Asset Management Company Ltd (Western Asset Japan) and together with Western Asset Singapore and Western Asset London, the Non-U.S. Advisers) are also the Fund's investment advisers. Western Asset London, Western Asset Singapore and Western Asset Japan provide certain advisory services to the Fund relating to currency transactions and investment in non-U.S. denominated securities. Western Asset London, Western Asset Singapore and Western Asset Japan do not receive any compensation from the Fund. At no time since becoming investment advisers with respect to the Fund in 2008 through the end of the reporting period in May 31, 2018 has any of the Non-U.S. Advisers received any compensation from the Fund or Western Asset for services provided with respect to the Fund.

Effective April 27, 2018, Legg Mason Partners Fund Advisor, LLC (LMPFA or the Administrator), an affiliate of the Investment Adviser, provides certain administrative, accounting, shareholder servicing and corporate secretarial and related functions pursuant to an Administrative Services Agreement with the Fund. The Fund pays the Administrator a monthly fee at the annual rate of 0.05% of the Fund's average weekly assets.

Prior to April 27, 2018, LMPFA provided certain administrative and accounting functions and Guggenheim Funds Distributors, Inc. ( Guggenheim ) or Security Investors, LLC ( Security Investors ) provided certain shareholder servicing and corporate secretarial and related functions for the Fund. During the portion of the reporting period prior to April 27, 2018, the Fund paid LMPFA a monthly fee at an annual rate of 0.04% of the Fund's average weekly assets, subject to an annual minimum fee of \$225,000. During the portion of the reporting period prior to February 1, 2018, the Fund paid Guggenheim a monthly fee at an annual rate of 0.15% of the Fund's average weekly assets. From February 1, 2018 to April 26, 2018, the Fund's agreement with Security Investors provided for a monthly fee at an annual rate of 0.15% of the Fund's average weekly assets, however Security Investors agreed to waive a portion of its compensation in an amount equal to an annual rate of 0.025% of the Fund's average weekly assets. During the period from February 1, 2018 to April 26, 2018, Security Investors waived \$24,200. Prior to the beginning of the reporting period, Management informed Guggenheim that Guggenheim may have received payments in excess of a previously agreed upon cap on its compensation. Guggenheim informed the Fund that Guggenheim believed that it had not received any payments in excess of a cap. To settle this matter, pursuant to an agreement between Guggenheim and the Fund, on February 16, 2018 Guggenheim contributed to the Fund \$350,000 of the potential overage. Guggenheim retained the remaining amount of approximately \$700,000 as consideration for services rendered which the Board of Trustees believed Guggenheim earned based on services rendered to the Fund.

Western Asset has contractually agreed to waive \$674,370 in management fees beginning on April 27, 2018. During the period from April 27, 2018 through May 31, 2018, Western Asset waived \$182,831 in management fees. LMPFA has contractually agreed to waive \$96,339 in administrative services fees beginning on April 27, 2018. During the period from April 27, 2018 through May 31, 2018, LMPFA waived \$25,182 in administrative services fees.

### 3. Investments

During the six months ended May 31, 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	\$ 24,268,449	\$ 70,956,494
Sales	11,571,657	81,458,309

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

At May 31, 2018, the aggregate cost of investments and the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

	Cost/Premiums Paid	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation/ (Depreciation)
Securities	\$ 520,612,165	\$ 7,764,066	\$ (8,839,920)	\$ (1,075,854)
Swap contracts	571,032		(76,064)	(76,064)
Futures contracts		2,814,514	(3,070,210)	(255,696)
Forward foreign currency contracts		1,677,839	(1,271,817)	406,022

Transactions in reverse repurchase agreements for the Fund during the six months ended May 31, 2018 were as follows:

Average Daily	Weighted Average	Maximum Amount
Balance*	Interest Rate*	Outstanding
\$147,878,557	1.66%	\$149,836,625

\* Averages based on the number of days that Fund had reverse repurchase agreements outstanding.

Interest rates on reverse repurchase agreements ranged from 1.440% to 2.110% during the six months ended May 31, 2018. Interest expense incurred on reverse repurchase agreements totaled \$1,227,201.

#### 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 Consolidated Statement of Assets and Liabilities at May 31, 2018.

	ASSET DERIVATIVES <sup>1</sup>				Total
	Interest Rate Risk	Foreign Exchange Risk	Commodity Risk		
Futures contracts <sup>2</sup>	\$ 1,707,459	\$ 133,019	\$ 974,036		\$ 2,814,514
Forward foreign currency contracts		1,677,839			1,677,839
<b>Total</b>	<b>\$ 1,707,459</b>	<b>\$ 1,810,858</b>	<b>\$ 974,036</b>		<b>\$ 4,492,353</b>

	LIABILITY DERIVATIVES				Total
	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Commodity Risk	
Futures contracts <sup>2</sup>	\$ 845,006	\$ 1,436,644		\$ 788,560	\$ 3,070,210
Centrally cleared swap contracts <sup>3</sup>			\$ 76,064		76,064
Forward foreign currency contracts		1,271,817			1,271,817
<b>Total</b>	<b>\$ 845,006</b>	<b>\$ 2,708,461</b>	<b>\$ 76,064</b>	<b>\$ 788,560</b>	<b>\$ 4,418,091</b>

<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).



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

3 Includes cumulative appreciation (depreciation) of centrally cleared swap contracts as reported in the Consolidated Schedule of Investments. Only variation margin is reported within the receivables and/or payables on the Consolidated Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Consolidated Statement of Operations for the six months ended May 31, 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**

	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Commodity Risk	Total
Purchased options <sup>1</sup>	\$ (179,938)				\$ (179,938)
Futures contracts	(96,293)	\$ (139,949)		\$ 1,576,452	1,340,210
Swap contracts			\$ 208,836		208,836
Forward foreign currency contracts		475,004			475,004
<b>Total</b>	<b>\$ (276,231)</b>	<b>\$ 335,055</b>	<b>\$ 208,836</b>	<b>\$ 1,576,452</b>	<b>\$ 1,844,112</b>

<sup>1</sup> Net realized gain (loss) from purchased options is reported in net realized gain (loss) from investment transactions in the Consolidated Statement of Operations.

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

	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Commodity Risk	Total
Purchased options <sup>1</sup>	\$ (26,759)				\$ (26,759)
Futures contracts	847,428	\$ (606,008)		\$ 357,146	598,566
Swap contracts			\$ (206,296)		(206,296)
Forward foreign currency contracts		888,588			888,588
<b>Total</b>	<b>\$ 820,669</b>	<b>\$ 282,580</b>	<b>\$ (206,296)</b>	<b>\$ 357,146</b>	<b>\$ 1,254,099</b>

<sup>1</sup> The change in unrealized appreciation (depreciation) from purchased options is reported in the change in net unrealized appreciation (depreciation) from investments in the Consolidated Statement of Operations.

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

During the six months ended May 31, 2018, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Purchased options	\$ 40,377
Futures contracts (to buy)	242,666,879
Futures contracts (to sell)	119,002,862
Forward foreign currency contracts (to buy)	49,631,598
Forward foreign currency contracts (to sell)	37,324,051
	Average Notional Balance
Credit default swap contracts (to sell protection)	\$ 32,170,000

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 May 31, 2018.

Counterparty	Gross		Net Assets (Liabilities) Subject to Master Agreements	Collateral Pledged (Received) <sup>3</sup>	Net Amount <sup>4</sup>
	Gross Assets Subject to Master Agreements <sup>1,2</sup>	Liabilities Subject to Master Agreements <sup>1</sup>			
Barclays Bank PLC	\$ 1,619,286	\$ (502,598)	\$ 1,116,688	\$ (179,936)	\$ 936,752
Citibank N.A.		(147,693)	(147,693)		(147,693)
JPMorgan Chase & Co.	58,553	(621,526)	(562,973)	530,000	(32,973)
<b>Total</b>	<b>\$ 1,677,839</b>	<b>\$ (1,271,817)</b>	<b>\$ 406,022</b>	<b>\$ 350,064</b>	<b>\$ 756,086</b>

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

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

<sup>3</sup> Gross amounts are not offset in the Consolidated Statement of Assets and Liabilities.

<sup>4</sup> Net amount may also include forward foreign currency exchange contracts that are not required to be collateralized.

### 5. Distributions subsequent to May 31, 2018

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

Record Date	Payable Date	Amount
6/15/2018	6/29/2018	\$ 0.0345
7/13/2018	7/31/2018	\$ 0.0345

### 6. Stock repurchase program



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On November 16, 2015, the Fund announced that the Fund's Board of Trustees (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance

stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the six months ended May 31, 2018, the Fund did not repurchase any shares.

#### **7. Deferred capital losses**

As of November 30, 2017, the Fund had deferred capital losses of \$3,392,265, which have no expiration date, that will be available to offset future taxable capital gains.

#### **8. Litigation**

On April 26, 2018 a lawsuit entitled Howard Winston vs. Western Asset Management Company et al. was filed in the United States District Court for the Central District of California. The lawsuit, ostensibly filed on behalf of the Fund and Western Asset Inflation-Linked Opportunities & Income Fund (together, the Funds), seeks monetary damages and other relief in connection with claims that the defendants received excessive compensation from the Funds in violation of Section 36(b) of the Investment Company Act of 1940, as amended. On July 2, 2018, defendants Western Asset Management Company, LLC (formerly, Western Asset Management Company), Western Asset Management Company Ltd., Western Asset Management Company Pte. Ltd., and Western Asset Management Company Limited (together, the Western Asset Defendants) and defendant Security Investors, LLC filed motions to dismiss all counts respectively asserted against the defendant entities. The Western Asset Defendants have informed the Fund that they believe that the lawsuit will have no material adverse effect on the ability of any one of them to continue providing services to the Fund or on the Fund itself.

#### **9. Revision**

Subsequent to the issuance of the consolidated financial statements for the year ended November 30, 2017, the Fund's Investment Adviser identified that the Fund's accretion of discount on an interest-only fixed income security was inaccurate, due to a service provider error, resulting in an overstatement of income and corresponding understatement of unrealized appreciation (depreciation) on investments by \$2,156,540. Accordingly, the Fund has revised its November 30, 2017 Consolidated Schedule of Investments and Consolidated Statement of Assets and Liabilities as well as its Consolidated Statements of Operations, Changes in Net Assets, Cash Flows and Consolidated Financial Highlights for the year ended November 30, 2017. The revision resulted in a reclassification entry between income and

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

unrealized appreciation (depreciation) on investments and has no effect on the Fund's previously reported net assets, net asset value per share or total return, nor did it affect the distributions available or paid to shareholders. The Fund's Investment Adviser concluded that the impact of this error was not material to the previously issued financial statements.

	Previously Reported	Revised
<b>Consolidated Schedule of Investments and Consolidated Statement of Assets and Liabilities as of November 30, 2017</b>		
Cost of Investments	\$ 513,279,139	\$ 511,122,599
<b>Consolidated Statement of Assets and Liabilities as of November 30, 2017</b>		
<b>Composition of Net Assets:</b>		
Undistributed net investment income	\$ 4,424,619	\$ 2,268,079
Net unrealized appreciation on investments, futures contracts, swap contracts, forward foreign currency contracts and foreign currencies	\$ 1,972,858	\$ 4,129,398
<b>Consolidated Statement of Operations For the Year Ended November 30, 2017</b>		
<b>Investment Income:</b>		
Interest	\$ 17,376,024	\$ 15,219,484
<b>Change in Net Unrealized Appreciation (Depreciation) From:</b>		
Change in Net Unrealized Appreciation on Investments Transactions	\$ 3,417,626	\$ 5,574,166
<b>Consolidated Statement of Changes in Net Assets For the Year Ended November 30, 2017</b>		
<b>Operations:</b>		
Net investment income	\$ 11,994,460	\$ 9,837,920
Change in net unrealized appreciation (depreciation)	\$ 1,535,253	\$ 3,691,793
Undistributed net investment income	\$ 4,424,619	\$ 2,268,079
<b>Consolidated Statement of Cash Flows For the Year Ended November 30, 2017</b>		
<b>Cash Provided (Used) by Operating Activities:</b>		
Net amortization of premium (accretion of discount)	\$ 1,336,567	\$ 3,493,107
Change in net unrealized appreciation (depreciation) of investments, OTC swap contracts and forward foreign currency contracts	(\$ 3,622,728)	(\$ 5,779,268)
<b>Consolidated Financial Highlights For the Year Ended November 30, 2017</b>		
<b>Per Share Operating Data:</b>		
<b>Income (Loss) From Operations:</b>		
Net investment income	\$ 0.41	\$ 0.34
Net realized and unrealized gain (loss)	\$ 0.41	\$ 0.48
<b>Ratios to Average Net Assets:</b>		
Net investment income	3.21%	2.63%

## Additional shareholder information (unaudited)

### Results of annual meeting of shareholders

The Fund's annual meeting of shareholders was held on May 30, 2018. Of the 29,152,820 common shares outstanding on the record date for the meeting, the following shares voted at the meeting:

Election of Trustee	For	Withheld
Ronald E. Toupin, Jr.	25,961,133	1,292,792

## Dividend reinvestment plan (unaudited)

The Fund and Computershare Inc. ( Agent ), as the Transfer Agent and Registrar of WIA, offer a convenient way to add shares of WIA to your account. WIA offers to all common shareholders a Dividend Reinvestment Plan ( Plan ). Under the Plan, cash distributions (e.g., dividends and capital gains) on the common shares are automatically invested in shares of WIA unless the shareholder elects otherwise by contacting the Agent at the address set forth below.

As a participant in the Dividend Reinvestment Plan, you will automatically receive your dividend or net capital gains distribution in newly issued shares of WIA, if the market price of the shares on the date of the distribution is at or above the net asset value (NAV) of the shares, minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market. The number of shares to be issued to you will be determined by dividing the amount of the cash distribution to which you are entitled (net of any applicable withholding taxes) by the greater of the NAV per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the NAV, less estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market, the Agent will, as agent for the participants, buy shares of WIA through a broker on the open market. All common shares acquired on your behalf through the Plan will be automatically credited to an account maintained on the books of the Agent.

### Additional information regarding the plan

WIA will pay all costs applicable to the Plan, except for brokerage commissions for open market purchases by the Agent under the Plan, which will be charged to participants. All shares acquired through the Plan receive voting rights and are eligible for any stock split, stock dividend, or other rights accruing to shareholders that the Board of Trustees may declare.

You may terminate participation in the Plan at any time by giving notice to the Agent. Such termination will be effective prior to the record date next succeeding the receipt of such instructions or by a later date of termination specified in such instructions. Upon termination, a participant will receive a certificate for the full shares credited to his or her account or may request the sale of all or part of such shares. Fractional shares credited to a terminating account will be paid for in cash at the current market price at the time of termination.

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

Inquiries regarding the Plan, as well as notices of termination, should be directed to Computershare Inc, 462 South 4th Street, Suite 1600 Louisville, KY 40202. Investor Relations telephone number 1-888-888-0151.

### Schedule of portfolio holdings

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. You may obtain a free copy of the Fund's Form

N-Q by calling 1-888-777-0102, by visiting the Fund's website [www.lmcef.com](http://www.lmcef.com), or by writing to the Fund, or you may obtain a copy of this report (and other information relating to the Fund) from the SEC's website (<http://www.sec.gov>). Additionally, the Fund's Form N-Q can be viewed or copied at the SEC's Public Reference Room in Washington D.C. Information about the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330.

Western Asset

## Inflation-Linked Income Fund

### Trustees

Michael Larson

Ronald A. Nyberg

Ronald E. Toupin, Jr.

### Officers

Jane Trust

*President*

Richard F. Sennett

*Principal Financial*

*Officer and Treasurer*

Todd F. Kuehl

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Protection Officer*

Robert I. Frenkel

*Secretary and Chief Legal*

*Officer*

Thomas C. Mandia

*Assistant Secretary*

Jeanne M. Kelly

*Senior Vice President*

### Investment advisers

Western Asset Management Company,

LLC\*

Western Asset Management Company Limited

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Western Asset Management Company Pte. Ltd.

Western Asset Management Company Ltd

### **Administrator**

Legg Mason Partners Fund

Advisor, LLC ( LMPFA )

### **Custodian**

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

### **Legal counsel**

Ropes & Gray LLP

1211 Avenue of the Americas

New York, NY 10036

### **Independent registered**

#### **public accounting firm**

PricewaterhouseCoopers LLP

100 East Pratt Street

Baltimore, MD 21202

### **Transfer Agent**

Computershare Inc.

462 South 4<sup>th</sup> Street,

Suite 1600

Louisville, KY 40202

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

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

Prior to April 27, 2018, LMPFA provided certain administrative and accounting functions and Guggenheim Funds Distributors, Inc. or Security Investors, LLC provided certain shareholder servicing and corporate secretarial and related functions.



## Privacy and Security Notice

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

This Privacy and Security Notice (the **Privacy Notice** ) addresses the 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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## 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 Funds' website at [www.lmcef.com](http://www.lmcef.com), or contact the Funds at 1-888-777-0102.

Revised April 2018

NOT PART OF THE SEMI-ANNUAL REPORT

**Western Asset Inflation-Linked Income Fund**

Western Asset Inflation-Linked Income Fund

620 Eighth Avenue

49th Floor

New York, NY 10018

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

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

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

This report is transmitted to the shareholders of Western Asset Inflation-Linked Income Fund 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

**WASX013850 7/18 SR18-3388B**

ITEM 2. CODE OF ETHICS.

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

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

Not applicable.

ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable.

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

Not applicable.

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

Not applicable.

ITEM 11. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.
  
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Not applicable.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-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 Inflation-Linked Income Fund**

By: /s/Jane Trust  
Jane Trust  
President  
Date: July 25, 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  
President  
Date: July 25, 2018

By: /s/Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer  
Date: July 25, 2018