WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
Form N-14 8C
March 15, 2013

As filed with the Securities and Exchange Commission on March 15, 2013

Securities Act File No. 333-

Investment Company Act File No. 811-07920

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-14

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

¨ **Pre-Effective Amendment No. __** ¨ **Post-Effective Amendment No. __**

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

(Exact Name of Registrant as Specified in Charter)

620 Eighth Avenue

New York, New York 10018

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

1-888-777-0102

(Area Code and Telephone Number)

R. Jay Gerken

Legg Mason & Co., LLC

620 Eighth Avenue, 49th Floor

New York, New York 10018

(Name and Address of Agent for Services)

with copies to:

Sarah E. Cogan, Esq.	**Robert I. Frenkel, Esq.**
Simpson Thacher & Bartlett LLP	**Legg Mason & Co., LLC**
425 Lexington Avenue	**300 First Stamford Place**
New York, New York 10017	**Stamford, Connecticut 06902**

Calculation of Registration Fee under the Securities Act of 1933:

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock ($.001 par value)	8,400,000	$6.45	$54,180,000	$7,390.15

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

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

WESTERN ASSET HIGH INCOME FUND INC.

620 Eighth Avenue

New York, New York 10018

, 2013

Dear Stockholder:

The Annual Meeting of Stockholders (the Meeting) of Western Asset High Income Fund Inc. (HIF) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on May 31, 2013 at 10:00 a.m., Eastern Time, for the purposes of considering and voting upon the following:

1. A proposal to elect three Class I Directors and one Class II Director to the Board of Directors of Western Asset High Income Fund Inc.

2. A proposal to approve the merger of Western Asset High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc. in accordance with the Maryland General Corporation Law.

3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

The close of business on March 22, 2013 has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting. In addition to a proposal to elect three Class I Directors and one Class II Director to HIF s Board of Directors, stockholders are being asked to consider a proposal to approve the merger of HIF with and into Western Asset High Income Opportunity Fund Inc. (HIO, and together with HIF, the Funds) in accordance with the Maryland General Corporation Law (the Merger). The attached Proxy Statement/Prospectus asks for your approval of the proposed Merger. **After careful consideration, the Board of HIF recommends that you vote FOR the proposed Merger.**

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

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

The Board believes that the Merger is in the best interests of HIF stockholders. HIF and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow HIF stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the Board believes that the size of HIO allows for additional opportunities for diversification. In addition, as a result of the Merger, the combined Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity. In particular, the total annual operating expenses borne by HIF stockholders will be reduced from 1.15% to 0.88%. Also, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and shareholder servicing efforts.

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

If you have any questions about the proposals to be voted on, please call Georgeson Inc. at (888) 605-8334.

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

Sincerely,

R. Jay Gerken

President and Chief Executive Officer

WESTERN ASSET HIGH INCOME FUND INC.

IMPORTANT NEWS FOR STOCKHOLDERS

The enclosed combined Proxy Statement/Prospectus describes a proposal to elect three Class I Directors and one Class II Director to the Board of Directors of Western Asset High Income Fund Inc. (HIF) and a proposal to merge HIF with and into Western Asset High Income Opportunity Fund Inc. (HIO, and together with HIF, the Funds) in accordance with the Maryland General Corporation Law (the Merger).

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

COMMON QUESTIONS ABOUT THE PROPOSED MERGER

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

A. You are being asked to vote in favor of proposals to:

1. elect three Class I Directors and one Class II Director to the Board of Directors of HIF.

2. approve the merger of HIF with and into HIO in accordance with the Maryland General Corporation Law.

Q. How do the Directors suggest that I vote on the election of Directors?

A. After careful consideration, HIF s Board of Directors unanimously recommends that you vote FOR each of the nominees for Director.

Q. How will the Merger affect me?

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

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

Q. Why is the merger being recommended?

A. The Board believes that the Merger is in the best interests of HIF stockholders. HIF and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow HIF stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the Board believes that the size of HIO allows for additional opportunities for diversification. In addition, as a result of the Merger, the combined Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity. In particular, the total annual operating expenses borne by HIF stockholders will be reduced from 1.15% to 0.88%. Also, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and shareholder servicing efforts.

At a meeting held on February 13 and 14, 2013, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

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

A. HIF and HIO have near identical investment objectives and substantially similar policies and strategies. HIF s primary investment objective is to maintain a high level of current income. As a secondary objective, HIF seeks capital appreciation. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, HIF invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities issued by U.S. and foreign corporations and foreign governments. HIF may invest up to 50% of its total assets in non-U.S. dollar-denominated securities. In addition, HIF may invest up to 20% of the value of its total assets, measured at the time of investment, in illiquid securities.

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

In general, HIO has greater flexibility to invest in equity securities, yet less flexibility to invest in foreign government securities. Moreover, Western Asset Management Company Pte. Ltd. (Western Singapore) currently serves as one of HIF s subadvisers, but not as one of HIO s. LMPFA currently anticipates that Western Singapore will not be a subadviser to the merged Fund and that this fact will not have any impact on Western Asset s ability to manage the merged Fund s portfolio securities. Under Western Singapore s subadvisory agreement, Western Asset pays Western Singapore a fee for any of HIF s assets managed by Western Singapore. Currently, Western Singapore does not manage any of HIF s assets, and therefore is not receiving any subadvisory fee from Western Asset related to HIF.

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

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

Q. How will the Merger affect Fund fees and expenses?

A. HIF currently pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.70% of HIF s average weekly net assets. HIO currently pays LMPFA, which is also HIO s investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets.

Although HIO s investment management fee is higher than HIF s, HIF also pays 0.45% in other expenses based on its average daily net assets, whereas HIO only pays 0.08% in other expenses based on its average daily net assets. As a result of the Merger, total expenses paid by HIF stockholders are expected to decline from 1.15% (for the fiscal year ended December 31, 2012) to approximately 0.88% in the combined Fund.

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

A. The Merger is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Assuming the Merger qualifies for such treatment, you generally will not recognize a gain or loss for federal income tax purposes as a result of the merger. HIF stockholders may, however, recognize gain or loss with respect to any cash those stockholders receive pursuant to the Merger in lieu of fractional shares. As a condition to the closing of the Merger, HIF and HIO will each receive an opinion of counsel to the effect that the Merger will qualify for such treatment. Opinions of counsel are not binding on the Internal Revenue Service or the courts. You should talk to your tax advisor about any state, local and other tax consequences of the Merger. See Proposal 2 Information About the Proposed Merger Federal Income Tax Consequences.

Q. Who will pay for the Merger?

A. The costs of preparing, printing, assembling and mailing material in connection with this solicitation of proxies are estimated to be approximately $45,000, and will be borne exclusively by HIF. Any additional costs of the Merger relating to HIO will be borne by LMPFA and the additional costs of the Merger relating to HIF will be borne by HIF. The additional costs of the Merger relating to HIF are estimated to be approximately $131,000.

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

A. After careful consideration, HIF s Board of Directors, including all of the Independent Directors, unanimously recommends that you vote FOR the Merger.

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

A. If the Merger is not approved, HIF will continue as a separate investment company, and HIF s Board of Directors will consider such alternatives as it determines to be in the best interests of stockholders, including reproposing the Merger.

Q. When is the Merger expected to happen?

A. If HIF s stockholders approve the Merger, the Merger is expected to occur on or about June 14, 2013.

Q. Will my vote make a difference?

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

Q. Whom do I call if I have questions?

A. If you need more information, or have any questions about voting, please call Georgeson Inc., HIF s proxy solicitor, at (888) 605-8334.

Q. How do I vote my shares?

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

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

It is important that you vote promptly.

WESTERN ASSET HIGH INCOME FUND INC.

620 Eighth Avenue

New York, New York 10018

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

, 2013

To the Stockholders:

The Annual Meeting of Stockholders (the Meeting) of Western Asset High Income Fund Inc. (HIF) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on May 31, 2013 at 10:00 a.m., Eastern Time, to consider and vote on the following proposals, as more fully described in the enclosed Proxy Statement/ Prospectus:

1. A proposal to elect three Class I Directors and one Class II Director to the Board of Directors of Western Asset High Income Fund Inc.

2. A proposal to approve the merger of Western Asset High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc. in accordance with the Maryland General Corporation Law.

3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

The Board recommends that you vote FOR each Proposal upon which you are being asked to vote.

Stockholders of record at the close of business on March 22, 2013 are entitled to vote at the Meeting and at any adjournments or postponements thereof.

By order of the Board of Directors,

Robert I. Frenkel

Secretary

, 2013

INSTRUCTIONS FOR SIGNING PROXY CARDS

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

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

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

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

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

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

SUBJECT TO COMPLETION, DATED , 2013

PROXY STATEMENT/PROSPECTUS

, 2013

PROXY STATEMENT FOR:

WESTERN ASSET HIGH INCOME FUND INC.

620 Eighth Avenue

New York, New York 10018

1-888-777-0102

PROSPECTUS FOR:

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

620 Eighth Avenue

New York, New York 10018

1-888-777-0102

This combined Proxy Statement and Prospectus (the Proxy Statement/Prospectus) is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Western Asset High Income Fund Inc. (HIF) for HIF s 2013 Annual Meeting of Stockholders (the Meeting). The Meeting will be held Friday, May 31, 2013 at 620 Eighth Avenue, 49th Floor, New York, New York at 10:00 a.m., Eastern Time. At the Meeting, stockholders of HIF will be asked to consider and act upon the following:

1. A proposal to elect three Class I Directors and one Class II Director to the Board of Directors of Western Asset High Income Fund Inc.

2. A proposal to approve the merger of Western Asset High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc. in accordance with the Maryland General Corporation Law.

3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

If Proposal 2 is approved, as a result of the merger of HIF with and into Western Asset High Income Opportunity Fund Inc. (HIO, and together with HIF, the Funds) in accordance with the Maryland General Corporation Law (the Merger), each share of common stock, par value $0.001 per share, of HIF (the HIF Common Shares) would convert into an equivalent dollar amount (to the nearest $0.001) of full shares of common stock, par value $0.001 per share, of HIO (the HIO Common Shares), based on the net asset value of each Fund on the date preceding the Merger. HIO will not issue fractional HIO Common Shares to holders of HIF Common Shares. In lieu of issuing fractional shares, HIO will pay cash to each former holder of HIF Common Shares in an amount equal to the value of the fractional HIO Common Shares that the investor would otherwise have received in the Merger. Although the HIO Common Shares received in the Merger will have the same total net asset value as the HIF Common Shares held immediately before the Merger (disregarding fractional shares), their stock price on the New York Stock Exchange (NYSE) may be greater or less than that of the HIF Common Shares, based on current market prices persisting at the time of the Merger. All HIO Common Shares currently issued and outstanding will remain issued and outstanding following the Merger.

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

At a meeting held on February 13 and 14, 2013, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the 1940 Act) (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

HIF was incorporated in Maryland on September 14, 1992; HIO was incorporated in Maryland on July 30, 1993. Both HIF and HIO are closed-end, diversified management investment companies listed on the NYSE.

HIF s primary investment objective is to maintain a high level of current income. As a secondary objective, HIF seeks capital appreciation. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation. The current investment policies of HIO, which differ from those of HIF, will continue unchanged if the Merger occurs. Please see Proposal 2 Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds investment objectives and policies.

The Merger will be effected pursuant to an Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A. The material terms and conditions of the Agreement and Plan of Merger are summarized in this Proxy Statement/Prospectus. See Proposal 2 Information About the Proposed Merger-The Agreement and Plan of Merger.

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

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

The Merger is being structured as a tax-free reorganization for federal income tax purposes. See Proposal 2 Information About the Proposed Merger Federal Income Tax Consequences. Stockholders should consult their tax advisors to determine the actual impact of the Merger on them in light of their individual tax circumstances.

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

A Statement of Additional Information (SAI) dated , 2013, which contains additional information about the Merger and the Funds, has been filed with the Securities and Exchange Commission (SEC). The SAI, as well as HIF s Annual Report to Stockholders for the Fiscal Year Ended December 31, 2012, filed with the SEC on March 1, 2013 (accession no. 0001104659-13-016810) and HIO s Annual Report to Stockholders for the Fiscal Year Ended September 30, 2012, filed with the SEC on November 26, 2012 (accession no. 0001104659-12-079835), and, which highlight certain important information such as investment performance and expense and financial information, are incorporated by reference into this Proxy Statement/Prospectus. In addition, stockholder reports, proxy materials and other information concerning HIO (File No. 811-07920) and HIF (File No. 811-07162) can be inspected at the NYSE. You may receive free of charge a copy of the SAI, or the annual report and semi-annual report for either Fund, by contacting HIF and HIO at 888-777-0102, by writing either Fund at the address listed above or by visiting our website at www.lmcef.com.

In addition, you can copy and review this Proxy Statement/Prospectus and the complete filing on Form N-14 containing the Proxy Statement/Prospectus (File No. 333-   ) and any of the above-referenced documents at the SEC s Public Reference Room in Washington, DC. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090. Reports and other information about each Fund are available on the EDGAR Database on the SEC s Internet site at *www.sec.gov.* You may also obtain copies of this information, after paying a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov*, or by writing the SEC s Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

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

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

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

TABLE OF CONTENTS

PROPOSAL 1 TO ELECT THREE CLASS I DIRECTORS AND ONE CLASS II DIRECTOR TO HIF S BOARD OF DIRECTORS

Background

In accordance with HIF s charter, HIF s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of HIF s Class I Directors expire at the Meeting. Stockholders are being asked to elect three Class I Directors at the Meeting to hold office until the consummation of the Merger or, if HIF stockholders do not approve the Merger, until the 2016 Annual Meeting of Stockholders, or thereafter until his successor is duly elected and qualified. One person has also been nominated by the Board of Directors for election at the Meeting as a Class II Director for a term of one year (until the 2014 Annual Meeting of Stockholders), until the consummation of the Merger or, if HIF stockholders do not approve the Merger, until her successor has been duly elected and qualified or until she resigns or is otherwise removed. The term of office of each of the remaining Class II and Class III Directors expires at the year 2014 or 2015 Annual Meeting of Stockholders, respectively, or thereafter when his or her successor is duly elected and qualified, or until the consummation of the Merger. The effect of these staggered terms is to limit the ability of other entities or persons to acquire control of the Fund by delaying the replacement of a majority of the Board of Directors.

Similarly, in accordance with HIO s charter, HIO s Board of Directors is also divided into three classes: Class I, Class II and Class III. The terms of office of HIO s Class I, Class II and Class III Directors expire at HIO s 2014, 2015 and 2016 Annual Meetings of Stockholders, respectively, or thereafter when his or her successor is duly elected and qualified. The same individuals (including the nominees for election to HIF s Board of Directors) serve as the Directors of both HIF and HIO.

The persons named in the proxy intend to vote at the Meeting (unless directed not to vote) FOR the election of the nominees named below. Each of the nominees is currently a member of HIF s Board of Directors and has indicated that he or she will serve if elected. However, if any nominee should be unable to serve, the proxy will be voted for any other person determined by the persons named in the proxy in accordance with their judgment.

The following table provides information concerning the nominees for election as Directors of HIF. These individuals are also currently Directors of HIO.

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex[1] Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
NON-INTERESTED NOMINEES					
Daniel P. Cronin c/o Chairman of the Fund Legg Mason & Co., LLC (Legg Mason & Co.) 620 Eighth Avenue New York, NY 10018 Birth Year: 1946	Director and Member of Audit and Nominating Committees; Class I (HIF), Class I (HIO)	Since 1993 (HIF), Since 2007 (HIO)	Retired; formerly, Associate General Counsel, Pfizer, Inc.	29	None
William R. Hutchinson c/o Chairman of the Fund Legg Mason & Co.	Director and Member of Audit and Nominating Committees; Class I (HIF), Class III (HIO)	Since 2003 (HIF), Since 2007 (HIO)	President, W.R. Hutchinson & Associates Inc. (oil industry consulting)	29	Director of Associated Banc-Corp.

620 Eighth Avenue

New York, NY 10018

Birth year: 1942

1

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex[1] Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
Jeswald W. Salacuse c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth year: 1938	Director and Member of Nominating and Audit Committees; Class I (HIF), Class I (HIO)	Since 1993 (HIF), Since 2007 (HIO)	Henry J. Braker Professor of Commercial Law and formerly Dean, The Fletcher School of Law & Diplomacy, Tufts University (since 1986); President, Arbitration Tribunal, World Bank/CSID (since 2004)	29	Director of two registered investment companies advised by Blackstone Asia Advisors L.L.C. (Blackstone Advisors)
Eileen Kamerick c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1958	Director and Member of Nominating and Audit Committees; Class II (HIF), Class II (HIO)	Since 2013 (HIF), Since 2013 (HIO)	CFO, Press Ganey Associates (health care informatics company) (since 2012); formerly Managing Director and CFO, Houlihan Lokey (international investment bank) (2010 to 2012); Senior Vice President, CFO & CLO, Tecta America Corp (commercial roofing company) (2008 to 2010); Executive Vice President and CFO, Bearing Point Inc. (management and technology consulting firm) (2008); Executive Vice President, CFO and CAO Heidrick & Struggles (international executive search and leadership consulting firm) (2004 to 2008)	29	Director of Associated Banc-Corp (since 2007); Westell Technologies, Inc. (technology company) (since 2003)

The following table provides information concerning the remaining Directors of HIF and HIO:

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex[1] Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
NON-INTERESTED DIRECTORS					
Leslie H. Gelb c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1937	Director and Member of Nominating and Audit Committees; Class II (HIF), Class III (HIO)	Since 2001 (HIF), Since 2007 (HIO)	President Emeritus and Senior Board Fellow, The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times	29	Director of two registered investment companies advised by Blackstone Advisors L.L.C.
Riordan Roett c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1938	Director and Member of Nominating and Audit Committees; Class II (HIF), Class III (HIO)	Since 1995 (HIF), Since 2007 (HIO)	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973)	29	None
Carol L. Colman c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1946	Director and Member of Nominating and Audit Committees; Class III (HIF), Class I (HIO)	Since 2002 (HIF), Since 2007 (HIO)	President, Coleman Consulting Co.	29	None
Paolo M. Cucchi c/o Chairman of the Fund Legg Mason & Co. 620 Eighth Avenue New York, NY 10018	Director and Member of Nominating and Audit Committees; Class III (HIF), Class III (HIO)	Since 2007 (HIF), Since 2007 (HIO)	Professor of Italian & French languages, Drew University; formerly Vice President and Dean of College of Liberal Arts at Drew University (1984-2009)	29	None

Birth Year: 1941

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex(1) Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
INTERESTED DIRECTOR					
R. Jay Gerken[2], CFA Legg Mason & Co. 620 Eighth Avenue New York, NY 10018 Birth Year: 1951	Chairman, CEO, President and Director Class III (HIF), Class II (HIO)	Since 2002 (HIF), Since 2002 (HIO)	Managing Director, Legg Mason & Co., LLC (Legg Mason & Co.); Chairman, President and Chief Executive Officer of LMPFA; Chairman of the Board and Trustee/Director of 162 funds associated with LMPFA and its affiliates; President, LMPFA (since 2006); Chairman, President and Chief Executive Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates; formerly, Chairman, President and Chief Executive Officer, Travelers Investment Advisers Inc. (2002 to 2005).	162	Trustee, Consulting Group Capital Markets Fund (2002-2006)

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

(2) Mr. Gerken is an interested person as defined in the 1940 Act because he is an officer of LMPFA and certain of its affiliates.

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

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

Security Ownership of Management

The following table provides information concerning the dollar range of equity securities owned beneficially by each Director and nominee for election as Director as of December 31, 2012:

Name of Director/Nominee	Dollar Range[1] of Equity Securities in HIF	Dollar Range[1] of Equity Securities in HIO	Aggregate Dollar Range[1] of Equity Securities in all Funds Overseen by Director/Nominee in Family of Investment Companies[2]
NON-INTERESTED DIRECTORS			
Carol L. Colman	A	E	E
Daniel P. Cronin	B	C	E
Paolo M. Cucchi	A	A	C
Leslie H. Gelb	A	A	A
William R. Hutchinson	C	E	E
Eileen Kamerick[3]	A	A	A
Riordan Roett	B	A	C
Jeswald W. Salacuse	B	A	D
INTERESTED DIRECTOR			
R. Jay Gerken	B	C	E

(1) The dollar ranges are as follows: A = None; B = $1-$10,000; C = $10,001-$50,000; D = $50,001-$100,000; E = Over $100,000.

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

(3) Ms. Kamerick became a Director, effective February 1, 2013.

At , 2013, the Directors and officers of the Funds as a group beneficially owned less than 1% of the outstanding shares of each Fund s common stock.

No Director or nominee for election as Director who is not an interested person of the Funds as defined in the 1940 Act, nor any immediate family members, to the best of the Funds knowledge, had any interest in the Funds investment adviser, or any person or entity (other than the Funds) directly or indirectly controlling, controlled by, or under common control with Legg Mason as of December 31, 2012.

Director Compensation

Under the federal securities laws, and in connection with the Meeting, the Funds are required to provide to stockholders in connection with the Meeting information regarding compensation paid to the Directors by the Funds, as well as by the various other investment companies advised by LMPFA. The following table provides information concerning the compensation paid to each Director by the Funds and the Fund Complex during the calendar year ended December 31, 2012 and the total compensation paid to each Director during the fiscal years ended September 30, 2012 for HIO and December 31, 2012 for HIF. Certain of the Directors listed below are members of the Funds Audit and Nominating Committees, as well as other committees of the boards of certain other investment companies advised by LMPFA. Accordingly, the amounts provided in the table include compensation for service on all such committees. The Funds do not

5

provide any pension or retirement benefits to Directors. In addition, no remuneration was paid during the fiscal years ended September 30, 2012 for HIO and December 31, 2012 for HIF, respectively, to Mr. Gerken who is an interested person as defined in the 1940 Act.

Name of Directors	Aggregate Compensation from HIF for Fiscal Year Ended 12/31/12	Aggregate Compensation from HIO for Fiscal Year Ended 09/30/12	Total Compensation from the Funds and Fund Complex[(1)] for Calendar Year Ended 12/31/12	Directorships[(2)]
Carol L. Colman	$ 1,167	$ 11,485	$ 223,614	29
Daniel P. Cronin	1,167	11,485	222,614	29
Paolo M. Cucchi	1,106	10,873	211,633	29
Leslie H. Gelb	1,106	10,873	210,633	29
William R Hutchinson	1,270	12,504	243,583	29
Eileen Kamerick[3)]	0	0	0	0
Riordan Roett	1,106	9,807	211,633	29
Jeswald W. Salacuse	1,234	12,148	238,594	29

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

(2) The numbers indicate the applicable number of investment companies in the Fund Complex overseen by that Director as of December 31, 2012.

(3) Eileen Kamerick was appointed a member of the Board of Directors of each Fund, effective February 1, 2013.

Responsibilities of the Board of Directors

Each Fund s Board of Directors is responsible for ensuring that each Fund is managed in the best interests of its respective stockholders. The Directors oversee the Funds business by, among other things, meeting with the Funds management and evaluating the performance of the Funds service providers including LMPFA, Western Asset, Western Asset Management Company Limited (Western Asset Limited), Western Asset Management Company Pte. Ltd. (Western Singapore) in the case of HIF, the Funds custodian and the Funds transfer agent. As part of this process, the Directors consult with the Funds independent auditors and with their own separate independent counsel.

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

Each Fund s Board of Directors has four regularly scheduled meetings each year, and additional meetings are scheduled as needed. In addition, each Board has an Audit Committee and a Nominating Committee that meet periodically and whose responsibilities are described below.

During HIF s fiscal year ended December 31, 2012, HIF s Board of Directors held four regular meetings and two special meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. HIF does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended HIF s 2012 Annual Meeting of Stockholders.

During HIO s fiscal year ended September 30, 2012, HIO s Board of Directors held four regular meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. HIO does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended HIO s 2013 Annual Meeting of Stockholders.

Each Fund s Board of Directors is currently comprised of nine directors, eight of whom are Independent Directors. R. Jay Gerken serves as Chairman of the Board. Mr. Gerken is an interested person of the Funds. The appointment of

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

Audit Committee

Each Fund s Audit Committee is composed of all Directors of that Fund who have been determined not to be interested persons of the Fund, LMPFA or its affiliates within the meaning of the 1940 Act, and who are independent as defined in the NYSE listing standards. Currently, each Fund s Audit Committee is composed of Mses. Colman and Kamerick, and Messrs. Cronin, Cucchi, Gelb, Hutchinson, Roett and Salacuse.

Mr. Hutchinson serves as the Chair of the Audit Committee of HIF and has been determined by the Board to be an audit committee financial expert. The principal functions of the Audit Committee are: to (a) oversee the scope of HIF s audit, HIF s accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee charter) for their ratification, the selection, appointment, retention or termination of HIF s independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to HIF and certain other persons by HIF s independent registered public accounting firm. This Committee met twice during the fiscal year ended December 31, 2011. HIF s Board of Directors most recently reviewed and adopted an Audit Committee charter at a meeting held on May 21, 2010, a copy of which was attached as Annex A to the HIF s proxy statement dated April 1, 2011.

Mr. Hutchinson serves as the Chair of the Audit Committee of HIO and has been determined by the Board to be an audit committee financial expert. The principal functions of the Audit Committee are: to (a) oversee the scope of HIO s audit, HIO s accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee charter) for their ratification, the selection, appointment, retention or termination of HIO s independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to the Fund and certain other persons by HIO s independent registered public accounting firm. The Audit Committee met two times during the fiscal year ended September 30, 2012. HIO s Board of Directors most recently reviewed and adopted an Audit Committee charter at a meeting held on May 21, 2010, a copy of which was attached as Annex A to HIO s proxy statement dated December 29, 2010.

Nominating Committee

Each Fund s Nominating Committee, the principal function of which is to select and nominate candidates for election as Directors of that Fund, is currently composed of Mses. Colman and Kamerick, and Messrs. Cronin, Cucchi, Gelb, Hutchinson, Roett and Salacuse. Only Directors who are not interested persons of the Funds as defined in the 1940 Act and who are independent as defined in the NYSE listing standards are members of the Funds Nominating Committees. Each Fund s Nominating Committee may accept nominees recommended by the Fund s stockholders as it deems appropriate. Stockholders of HIF who wish to recommend a nominee should send recommendations to such Fund s Secretary that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors.

A recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

HIF s Nominating Committee met twice during HIF s fiscal year ended December 31, 2012. HIF s Board of Directors most recently reviewed and adopted a Corporate Governance and Nominating Committee charter at a meeting held on February 12, 2012, a copy of which is attached as Appendix B to HIF s Proxy Statement hereof.

HIO s Nominating Committee met once during HIO s fiscal year ended September 31, 2012. HIO s Board of Directors most recently reviewed and adopted a Corporate Governance and Nominating Committee charter at a meeting held on February 12, 2012, a copy of which is attached as Annex B to HIO s proxy statement dated December 21, 2012.

Each Fund s Nominating Committee identifies potential nominees through its network of contacts, and may also engage, if it deems appropriate, a professional search firm. Each Fund s Nominating Committee meets to discuss and consider such candidates qualifications and then chooses a candidate by majority vote. Neither Fund s Nominating Committee has specific, minimum qualifications for nominees and has not established specific qualities or skills that it regards as necessary for one or more of the Fund s Directors to possess (other than any qualities or skills that may be required by applicable law, regulation or listing standard). However, as set forth in each Fund s Nominating Committee charter, in evaluating a person as a potential nominee to serve as a Director of the Fund, each Fund s Committee may consider the following factors, among any others it may deem relevant:

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

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

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

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

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

- the character and integrity of the person; and

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

Officers

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

Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Richard F. Sennett Legg Mason & Co. 100 International Drive, Baltimore, MD 21202 Birth year: 1970	Principal Financial Officer	Since 2011 (HIF), Since 2011 (HIO)	Principal Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)
Ted P. Becker Legg Mason & Co. 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Chief Compliance Officer	Since 2006 (HIF), Since 2006 (HIO)	Director of Global Compliance at Legg Mason (since 2006); Managing Director of Compliance at Legg Mason, (since 2005); Chief Compliance Officer with certain mutual funds associated with Legg Mason (since 2006); Managing Director of Compliance at Legg Mason or its predecessors (2002-2005). Prior to 2002, Managing Director Internal Audit & Risk Review at Citigroup Inc.
Vanessa A. Williams Legg Mason & Co. 100 First Stamford Place, Stamford, CT 06902 Birth year: 1979	Identity Theft Prevention Officer	Since 2011 (HIF), Since 2011 (HIO)	Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Assistant Vice President and Senior Compliance Officer of Legg Mason & Co. or its predecessor (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. or its predecessor (2004 to 2008)

Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Steven Frank Legg Mason & Co. 620 Eighth Avenue 49th Floor New York, NY 10018 Birth year: 1967	Treasurer	Since 2010 (HIF), Since 2010 (HIO)	Vice President of Legg Mason & Co. (since 2002); Treasurer of certain funds associated with Legg Mason or its affiliates (since 2010); formerly, Controller of certain funds associated with Legg Mason or its predecessors (from 2005 to 2010); formerly, Assistant Controller of certain mutual funds associated with Legg Mason predecessors (from 2001 to 2005)
Robert I. Frenkel Legg Mason & Co. 100 First Stamford Place Stamford, CT 06902 Birth year: 1954	Secretary and Chief Legal Officer	Since 2003 (HIF), Since 2003 (HIO)	Managing Director and General Counsel of Global Mutual Funds for Legg Mason and its predecessor (since 1994); Secretary and Chief Legal Officer of mutual funds associated with Legg Mason (since 2003); formerly, Secretary of CFM (2001-2004)

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and Section 30(h) of the 1940 Act in combination require each Fund s Directors and principal officers, persons who own more than 10% of the Funds common stock, LMPFA and certain of its affiliates, to file reports of ownership and changes in ownership with the SEC and the NYSE. Such persons and entities are required by SEC regulations to furnish the Fund with copies of all such filings. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, HIF believes that for its fiscal year ended December 31, 2012, and HIO believes that for its fiscal year ended September 30, 2012, all relevant persons have complied with applicable filing requirements.

Report of the Audit Committee (HIF)

Pursuant to a meeting of the Audit Committee on February 20-21, 2013, the Audit Committee reports that it has: (i) reviewed and discussed HIF s audited financial statements with management; (ii) discussed with KPMG LLP (KPMG), the independent registered public accounting firm of HIF, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and (iii) previously received written confirmation from KPMG that it is independent and written disclosures regarding such independence as required by the Public Company Accounting Oversight Board Standard No. 1, and discussed with KPMG the independent registered public accounting firm s independence.

Pursuant to the Audit Committee charter adopted by HIF s Board, the Audit Committee is responsible for conferring with HIF s independent registered public accounting firm, reviewing annual financial statements and recommending the selection of HIF s independent registered public accounting firm. The Audit Committee advises the full Board with respect to accounting, auditing and financial matters affecting HIF. The independent registered public accounting firm is responsible for planning and carrying out the proper audits and reviews of HIF s financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are responsible for oversight. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent registered public accounting firm. Accordingly, the Audit Committee s oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions referred to above do not provide assurance that the audit of HIF s financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on the review and discussions referred to in items (i) through (iii) above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in HIF s annual report for HIF s fiscal year ended December 31, 2012.

Submitted by the Audit Committee of HIF s Board of Directors

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R Hutchinson

Eileen Kamerick

Riordan Roett

Jeswald W. Salacuse

February 20-21, 2013

Board Recommendation and Required Vote

Directors are elected by a plurality of the votes cast by the holders of HIF Common Shares present in person or represented by proxy at a meeting at which a quorum is present. For purposes of the election of Directors, abstentions and broker non-votes will not be considered votes cast, and do not affect the plurality vote required for Directors.

HIF s Board of Directors unanimously recommends that stockholders of HIF vote FOR each of the nominees for Director.

PROPOSAL 2 TO APPROVE THE MERGER OF HIF WITH AND INTO HIO IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW

Summary

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

Proposed Merger

The Board believes that the Merger is in the best interests of HIF stockholders. HIF and HIO have near identical investment objectives and substantially similar policies and strategies, which will allow HIF stockholders to continue to have exposure to high-yield fixed income securities. Moreover, the Board believes that the size of HIO allows for additional opportunities for diversification. In addition, as a result of the Merger, the combined Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced market liquidity. In particular, the total annual operating expenses borne by HIF stockholders are anticipated to be reduced from 1.15% to 0.88%. Also, the Merger will result in a more streamlined high yield product offering, allowing for more focused marketing and shareholder servicing efforts.

At a meeting held on February 13 and 14, 2013, the Boards of HIF and HIO, including all of the Independent Directors, unanimously approved the Agreement and Plan of Merger with respect to each Fund. As a result of the Merger:

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

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

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

If the Merger is not approved, HIF will continue as a separate investment company, and the Board of HIF will consider such alternatives as it determines to be in the best interests of stockholders, including reproposing the Merger.

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

Because the Merger has been approved by at least 75% of HIF s Continuing Directors as that term is defined in HIF s charter, approval of the Merger requires the affirmative vote of the holders of a majority of the outstanding HIF Common Shares. See Voting Information below. If stockholders of HIF approve the Merger, the Closing Date of the Merger is expected to be on or about June 14, 2013. Under the Maryland General Corporation Law, the stockholders of HIO are not required to approve the Merger. Furthermore, because of the comparative sizes of HIF and HIO, NYSE rules also do not require stockholders of HIO to approve the Merger.

Prior to completion of the Merger, HIF and HIO will each have received an opinion of Simpson Thacher & Bartlett LLP to the effect that the Merger will qualify as a tax-free reorganization for federal income tax purposes. Accordingly, for federal income tax purposes, (i) no gain or loss will generally be recognized by HIF or the holders of HIF Common Shares as a result of the Merger, (ii) the aggregate tax basis of the HIO Common Shares (including holders of fractional HIO Common Shares purchased by HIO) received by the holders of HIF Common Shares will be the same as the aggregate tax basis of the holders HIF Common Shares and (iii) a holder s holding period for HIO Common Shares (including that of fractional HIO Common Shares purchased by HIO) will generally be determined by including the period for which he or she held HIF Common Shares converted pursuant to the Merger, provided that such shares were held as capital assets. Holders of HIF Common Shares may, however, recognize gain or loss with respect to cash such holders receive pursuant to the Merger in lieu of fractional shares. For more information about the federal income tax consequences of the Merger, see Information about the Proposed Merger Federal Income Tax Consequences below.

Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks

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

HIF s primary investment objective is to maintain a high level of current income. As a secondary objective, HIF seeks capital appreciation. Similarly, HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.

Under normal market conditions, HIF invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities issued by U.S. and foreign corporations and foreign governments. HIF may invest up to 50% of its total assets in non-U.S. dollar-denominated securities. In addition, HIF may invest up to 20% of the value of its total assets, measured at the time of investment, in illiquid securities.

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

In general, HIO has greater flexibility to invest in equity securities, yet less flexibility to invest in foreign government securities. Moreover, Western Singapore currently serves as one of HIF s subadvisers, but not as one of HIO s. LMPFA currently anticipates that Western Singapore will not be a subadviser to the merged Fund and that this fact will not have any impact on Western Asset s ability to manage the merged Fund s portfolio securities. Under Western Singapore s subadvisory agreement, Western Asset pays Western Singapore a fee for any of HIF s assets managed by Western Singapore. Currently, Western Singapore does not manage any of HIF s assets, and therefore is not receiving any subadvisory fee from Western Asset related to HIF.

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

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

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

Effect on Expenses

HIF currently pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.70% of HIF s average weekly net assets. HIO currently pays LMPFA, which is also HIO s investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets. Although HIO s investment management fee is higher than HIF s, HIF also pays 0.45% in other expenses based on its average daily net assets, whereas HIO only pays 0.08% in other expenses based on its average daily net assets. As a result of the Merger, total expenses paid by HIF stockholders are expected to decline from 1.15% (for the fiscal year ended December 31, 2012) to approximately 0.88% in the combined Fund.

Fee Table and Expense Example

The table below (1) compares the estimated fees and expenses of each Fund, as of December 31, 2012, and (2) shows the estimated fees and expenses of the combined Fund, on a pro forma basis, as if the Merger occurred on December 31, 2012. The estimates are based on the contracts and agreements in effect as of December 31, 2012 and reflect the operating expense accrual rates on that date, which are based on each Fund s net assets as of December 31, 2012. Accordingly, the actual fees and expenses of each Fund and the combined Fund as of the Closing Date of the Merger may differ from those reflected in the tables below due to changes in net assets from those at December 31, 2012. No amount of any prior fee waiver or expense reimbursement to HIO or HIF may be recovered by any person.

Changes in net assets may result from market appreciation or depreciation and other factors occurring between December 31, 2012 and the Closing Date of the Merger. As a general matter, changes (positive or negative) in a Fund s expense ratio resulting from fluctuations in the Fund s net assets will be borne by the stockholders of that Fund and the combined Fund. For information concerning the net assets of each Fund as of January 31, 2013, please see Capitalization.

The estimated expenses of HIF and HIO as of December 31, 2012 and pro forma expenses following the proposed Merger are set forth below. The percentages in the table below are percentages of the Funds net assets attributable to Common Shares.

Fee Table

	Pre-Merger		
	HIF (Target Fund)	HIO (Acquiring Fund)	Pro Forma Combined Fund
Management Fee	0.70%	0.80%	0.80%
Other expenses	0.45%	0.08%	0.08%
Total Annual Fund Operating Expenses	1.15%	0.88%	0.88%

Example

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

	1 Year	3 Years	5 Years	10 Years
HIF	$ 12	$ 37	$ 64	$ 140
HIO	$ 9	$ 28	$ 49	$ 108
Pro Forma Combined Fund	$ 9	$ 28	$ 49	$ 108

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

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

Investment Objectives

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
HIF s primary investment objective is to maintain a high level of current income. As a secondary objective, HIF seeks capital appreciation.	HIO s primary investment objective is to seek high current income. As a secondary objective, HIO seeks capital appreciation.	No difference.

Principal Investment Strategies

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
Under normal market conditions, HIF invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities issued by U.S. and foreign corporations and foreign governments. HIF may invest up to 50% of its total assets in non-U.S. dollar-denominated securities.	In seeking to fulfill its investment objectives, HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks and up to 20% in common stock equivalents, including options, warrants and rights.	While similar, HIO has greater flexibility to invest in equity securities, yet less flexibility to invest in foreign government securities.

Fundamental Investment Restrictions

The following restrictions, along with the Funds investment objectives, are each Fund s only fundamental policies- that is, policies that cannot be changed without the approval of the holders of a 1940 Act Majority of the Fund s outstanding voting securities. As used in this Proxy Statement/Prospectus, a 1940 Act Majority means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares.

With respect to each Fund, the other policies and investment restrictions referred to in this Proxy Statement/Prospectus are not fundamental policies of the Fund and may be changed by the Fund s Board without stockholder approval. If a percentage restriction set forth below is adhered to at the time a transaction is effected, later changes in percentage resulting from any cause other than actions by the Fund will not be considered a violation.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
HIF may not purchase any securities which would cause more than 25% of the value of its total assets at the time of such purchase to be invested in securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investment in obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or repurchase agreements collateralized by any of such obligations.	HIO may not purchase any securities which would cause more than 25% of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry; provided that there shall be no limit on the purchase of U.S. government securities.	No difference.
HIF may not purchase the securities of any one issuer, other than the U.S. Government, its agencies or instrumentalities, if immediately after such purchase, more than 5% of the value of its total assets would be invested in such issuer; provided, however, that up to 25% of the assets of it may be invested without regard to this limitation.	HIO may not purchase the securities of any issuer, other than U.S. government securities, if as a result more than 5% of the value of its total assets would be invested in the securities of the issuer, except that up to 25% of the value of its total assets may be invested without regard to this 5% limitation.	No difference.
HIF may not (a) issue senior securities or borrow money, except that (i) HIF may borrow from banks up to 33-1/3% of the value of its total assets for emergency purposes, for the payment of dividends or for share repurchases or tender offers (provided that it will not purchase any securities at any time while such borrowings exceed 5% of the value of its total assets), and (ii) short-term credits necessary for settlement of securities transactions are not considered borrowings or senior securities, or (b) pledge, hypothecate, mortgage or otherwise encumber its assets other than to secure any such borrowings or in connection with hedging transactions, when-issued and delayed delivery transactions and similar investment strategies.	HIO may not (a) borrow money, except that (i) HIO may borrow from banks for temporary or emergency (not leveraging) purposes in an amount not exceeding 10% of the value of its total assets (including the amount borrowed) valued at market less liabilities (not including the amount borrowed) at the time the borrowing is made (provided that HIO will not make any additional investments while such borrowings exceed 5% of the value of its total assets) and (ii) HIO may enter into futures contracts, or (b) pledge, hypothecate, mortgage or otherwise encumber its assets except to secure borrowings and as margin for commodities transactions.	For emergency purposes, HIF may borrow from banks up to 33-1/3% of the value of its total assets for emergency purposes, for the payments of dividends or for share repurchases or tender offers, while HIO may borrow up to 10% for temporary or emergency purposes. For HIF, short-term credits are not considered borrowings or senior securities. Both funds may not pledge, hypothecate, mortgage or otherwise encumber the its assets except to secure borrowings or in connection with certain hedging transactions.
HIF may not own more than 10% of the outstanding voting securities of any one issuer, provided, however, that up to 25% of the assets of HIF may be invested without regard to this limitation.	HIO may not purchase more than 10% of the voting securities of any one issuer (other than U.S. government securities), except that up to 25% of the value of its total assets may be invested without regard to this 10% limitation.	No difference.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
HIF may not purchase or sell commodities or commodity contracts, including futures contracts and options thereon, except that it may engage in certain hedging transactions.	HIO may not invest in commodities, except that it may invest in futures contracts, options on futures contracts and options on currencies.	Essentially no difference.
HIF may not make loans, except that it may (a) purchase and hold debt instruments (including bonds, debentures or other obligations and certificates of deposit, bankers acceptances and fixed time deposits) in accordance with its investment objectives and policies; (b) invest in loans through participations and assignments; (c) enter into repurchase agreements with respect to portfolio securities; and (d) make loans of portfolio securities.	HIO may not make loans to others, except through the purchase of qualified debt obligations, the entry into repurchase agreements and loans of portfolio securities consistent with its investment objectives and policies.	Both HIF and HIO generally cannot make loans to others except as specified.
HIF may not underwrite the securities of other issuers, except to the extent that the purchase of investments directly from the issuer thereof and later disposition of such securities in accordance with its investment program may be deemed to be an underwriting.	HIO may not underwrite the securities of other issuers, except insofar as it may be deemed an underwriter in the course of disposing of portfolio securities.	No difference.
HIF may not purchase real estate, real estate mortgage loans or real estate limited partnership interests (other than securities secured by real estate or interests therein or securities issued by companies that invest in real estate or interests therein).	HIO may not purchase or sell real estate or interests in real estate, except that it may purchase and sell securities that are secured by real estate or interests in real estate and may purchase securities issued by companies that invest or deal in real estate.	No difference.
HIF may not make short sales of securities or purchase securities on margin (except for delayed delivery or when-issued transactions or such short-term credits as are necessary for the clearance of transactions).	HIO may not purchase securities on margin, except that it may obtain any short-term credits necessary for the clearance of purchases and sales of securities. For purposes of this restriction, the deposit or payment of initial or variation margin in connection with futures contracts or related options will not be deemed to be a purchase of securities on margin.	Both HIF and HIO may not purchase securities on margin except for delayed delivery or when-issued transactions. Both HIF and HIO may not make short sales of securities, except HIO may engage in short sales against the box.
	HIO may not make short sales of securities, except that it may engage in short sales against the box.	
HIF may not invest for the purpose of exercising control over management of any company.	No corresponding policy.	HIO has no explicit restriction with respect to investing for purpose of exercising control over management.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
HIF may not invest directly in interests in oil, gas or other mineral exploration development programs or mineral leases.	No corresponding policy.	HIO has no explicit restriction with respect to mineral investments.
HIF may not purchase shares of other investment companies (except as part of a Merger, consolidation or reorganization or purchase of assets approved by its shareholders).	HIO may not invest in securities of other investment companies registered or required to be registered under the 1940 Act, except as they may be acquired as part of a merger, consolidation, reorganization, acquisition of assets or an offer of exchange, or to the extent permitted by the 1940 Act	No difference.
Additional Non-Fundamental Investment Policies		
Under normal market conditions, HIF invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities issued by U.S. and foreign corporations and foreign governments.	HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks.	HIO may invest in preferred stock as part of its 80% policy. HIF may invest in high-yield debt securities issued by foreign governments as part of its 80% policy.
HIF may invest up to 10% of its total assets in common stock, convertible securities, warrants, preferred stock or other equity securities of U.S. issuers. HIF will generally hold such investments as a result of purchases of unit offerings of debt securities which include such securities or in connection with an actual or proposed conversion or exchange of debt securities and will treat investments acquired in this manner, together with any holdings of convertible securities, as debt securities for purposes of its policy to invest at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities issued by U.S. and foreign corporations and foreign governments.	HIO may invest up to 20% of its total assets in common stock, common stock equivalents, including options, warrants and rights.	HIO may invest up to 80% of its assets in preferred stock while HIF may only invest 10%. HIO may invest up to 20% of its total assets in common stock and common stock equivalents while HIF may invest up to only 10%.
HIF may purchase equity securities not associated with debt securities when, in the opinion of its investment manager, such purchase is appropriate.		
HIF may invest up to 50% of its total assets in non-U.S. dollar-denominated securities.	HIO may invest up to 20% of its total assets in the securities of foreign issuers that are denominated in currencies other than the U.S. dollar and may invest without limitation in securities of foreign issuers that are denominated in U.S. dollars.	HIF may invest up to 50% of its total assets in non-U.S. dollar denominated securities while HIO may only invest up to 20%..

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
If, in Western Asset s judgment, conditions in the securities markets would make pursuing the basic investment strategy inconsistent with the shareholders best interests, the investment manager may employ alternative strategies, including investment of a substantial portion of assets in securities rated higher than Ba by Moody s or BB by S&P.	If, in Western Asset s judgment, conditions in the securities markets would make pursuing the basic investment strategy inconsistent with the shareholders best interests, the investment manager may employ alternative strategies, including investment of all of HIO s assets in securities rated investment grade by any nationally recognized statistical rating organization.	Essentially no difference.
HIF may invest up to 35% of its total assets in high-quality short-term money market instruments, which may include obligations of the U.S. Government or its agencies or instrumentalities; commercial paper of issuers rated, at the time of purchase, A-2 or better by S&P or P-2 or better by Moody s or which, in the opinion of LMPFA, are of comparable creditworthiness; certificates of deposit, banker s acceptances or time deposits of U.S. banks with total assets of at least $1 billion (including obligations of foreign branches of such banks) and of the 75 largest foreign commercial banks in terms of total assets (including domestic branches of such banks) and repurchase agreements with respect to such obligations.	If, in Western Asset s judgment, conditions in the securities markets would make pursuing the basic investment strategy inconsistent with the shareholders best interests, the investment manager may employ alternative strategies, including investment of all of HIO s assets in securities rated investment grade by any nationally recognized statistical rating organization. Money market instruments that HIO may acquire will be securities rated in the two highest short-term rating categories by Moody s or S&P or the equivalent from another major rating service or comparable unrated securities and include U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers acceptances of U.S. or foreign banks); commercial paper; and repurchase agreements.	HIF may invest up to 35% of its total assets in high-quality short-term money market instruments. Both funds can invest without limit as an alternative strategy under adverse conditions.
If at some future time, in the opinion of the investment manager, adverse conditions prevail in the securities markets which makes the investment strategy inconsistent with the best interests of the shareholders, HIF may invest its assets without limit in high-quality short-term money market instruments.		
No corresponding policy.	HIO may, but is not required to, utilize various investment techniques to earn income, facilitate portfolio management and mitigate risk. These investment techniques utilize convertible securities, interest rate and currency futures contracts, put and call options on such futures contracts, currency exchange transactions, illiquid securities, securities of unseasoned issuers and securities of foreign governments and corporations	HIF has no explicit description of all investment techniques.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
	including those of developing countries. Any or all of the investment techniques available to the investment manager may be used at any time, and there is no particular strategy that dictates the use of one technique rather than another.	
HIF may purchase Brady Bonds with no or limited collateralization	No corresponding policy.	HIO has no explicit policy with respect to Brady Bonds.
HIF may invest up to 15% of its total assets in zero coupon securities and pay-in-kind bonds, and a substantial portion of HIF s sovereign debt securities may be acquired at a discount. Any equity securities received in payment of interest will be subject to the 10% limitation while any debt securities received in payment of interest will not be subject to the credit quality standards for new investments.	HIO may invest in zero coupon, pay-in-kind and delayed interest securities as well as custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both on certain U.S. government securities.	HIF is limited to investing up to 15% of its total assets in zero coupon securities and pay-in-kind bonds, and equity securities received in payment are subject to its 10% limitation.
HIF may invest in fixed and floating rate loans arranged through private negotiations between a foreign sovereign entity and one or more financial institutions in the form of participations in loans (subject to the investment manager determining the lender interpositioned between HIF and the borrower to be creditworthy) and assignments of all or a portion of loans from third parties. These investments are considered to be investments in sovereign debt securities.	HIO may invest up to 15% of its assets in corporate loans.	HIF has no explicit policy with respect to the amount it may invest in loans.
HIF may use a variety of derivative instruments for investment purposes as well as for hedging or risk-management purposes. These derivative instruments may include futures contracts, credit default swaps, credit default swap index securities, swap agreements and options on those instruments. As part of its strategies, HIF may purchase and sell futures contracts, purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial indices and futures contracts, enter into interest rate and currency transactions and enter into other	HIO may use a variety of derivative instruments for investment purposes as well as for hedging or risk-management purposes. These derivative instruments may include futures contracts, credit default swaps, credit default swap index securities, swap agreements and options on those instruments. As part of its strategies, HIO may purchase and sell futures contracts, purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial indices and futures contracts, enter into interest rate and currency transactions and enter into other	No difference; both Funds may invest in a broad range of derivative instruments for hedging, risk management and investment purposes.

HIF (Target Fund)	**HIO (Acquiring Fund)**	**Certain Differences between Funds**
similar transactions which may be developed in the future to the extent Western Asset determines that they are consistent with the investment objectives and policies and applicable regulatory requirements. Western Asset will not use derivatives for the purpose of leverage but will rather maintain segregated accounts to cover its obligations relating to the purchase of derivatives or otherwise comply with its investment restrictions regarding leverage in connection with such investments.	similar transactions which may be developed in the future to the extent Western Asset determines that they are consistent with the investment objectives and policies and applicable regulatory requirements. Western Asset will not use derivatives for the purpose of leverage but will rather maintain segregated accounts to cover its obligations relating to the purchase of derivatives or otherwise comply with its investment restrictions regarding leverage in connection with such investments.	
HIF may use any or all of these techniques at any time, and the use of any particular derivative transaction will depend on market conditions.	HIO may use any or all of these techniques at any time, and the use of any particular derivative transaction will depend on market conditions.	
HIF may enter into may enter into interest rate swaps, caps and floors on either an asset-based or liability-based basis and will not sell interest rate caps or floors that it does not own. HIF will accrue the net amount of the excess, if any, of its obligations over its entitlements with respect to each interest rate swap on a daily basis and will segregate with a custodian an amount of cash or liquid securities having an aggregate net asset value at least equal to the accrued excess. LMPFA and Western Asset have the discretion to determine whether a particular counterparty in certain types of derivative transactions is creditworthy. Therefore, HIF has the ability to trade with counterparties with less than the highest credit rating as long as the counterparties are deemed creditworthy by the investment adviser or the sub-adviser.	No corresponding policy.	HIO has no explicit policy with respect this category of derivatives.
HIF may enter into (a) futures contracts of debt securities, aggregates securities, indices based upon the prices thereof, and other financial indices, and (b) put or call options on such futures contracts.	HIO may enter into interest rate and currency futures contracts and may purchase and sell put and call options on such futures contracts.	HIF may enter into futures contracts of (and put or call options on) debt securities, aggregates of securities and indices, while HIO may enter into interest rate and currency futures contracts.
HIF may not sell futures contracts if the value of such futures contracts exceeds the total market value of its	HIO may only enter into futures contracts traded on regulated commodity exchanges. HIO may either accept or make delivery of cash or the underlying instrument specified	

HIF (Target Fund)	**HIO (Acquiring Fund)**	**Certain Differences between Funds**
portfolio securities. HIF will not engage in transactions in futures contracts or options thereon for speculative purposes but only as a hedge against changes resulting from market conditions in the values of securities in its portfolio. In addition, HIF will not enter into a futures contract or option thereon if, immediately thereafter, the sum of the amount of its initial deposits and premiums on open contracts and options would exceed 5% of the fair market value of its total assets; provided, however, that in the case of an option that is in-the-money at the time of the purchase, the in-the-money amount may be excluded in calculating the 5% limitation. Also, when required, a segregated account of cash or cash equivalents will be maintained and marked to market in an amount equal to the market value of the contract.	at the expiration of a futures contract or, prior to expiration, enter into a closing transaction involving the purchase or sale of an offsetting contract closing transactions with respect to futures contracts are effected on the exchange on which the contract was entered into (or a linked exchange). HIO may purchase and write put and call options on futures contracts in order to hedge all or a portion of its investments and may enter into closing purchase transactions with respect to options written by HIO in order to terminate existing positions. With respect to options purchased by HIO, there are no daily cash payments made by HIO to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net asset value.	
HIF may purchase or sell exchange-traded or over-the-counter put or call options on securities and indices based upon the prices of securities. HIF is authorized to purchase and sell exchange listed options and over-the-counter options which are privately negotiated with the counterparty to such contract. HIF will only enter into over-the-counter options with counterparties with the highest long-term credit ratings, and with primary U.S. government securities dealers recognized by the Federal Reserve Bank of New York.	No corresponding policy.	HIO has no explicit policy with respect to this category of derivatives.
HIF may enter into repurchase agreements only with dealers, domestic banks or recognized financial institutions which, in the opinion of LMPFA or Western Asset are based on guidelines established by the Board of Directors, are deemed creditworthy.	HIO may enter into repurchase agreement transactions with certain member banks of the Federal Reserve System or with certain dealers listed on the Federal Reserve Bank of New York s list of reporting dealers.	HIF s ability to enter into repurchase agreements depends on the creditworthiness of the bank/dealer/financial institutions as determined by the Board while HIO s ability depends on the specified entities.
HIF may purchase securities on a when-issued or delayed delivery basis and will only make commitments to purchase securities on a when-issued	HIO may purchase securities on a when-issued basis, or may purchase or sell securities for delayed delivery. HIO will not accrue income with	Essentially no difference.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
or delayed delivery basis with the intention of actually acquiring the securities but may sell them before the settlement date if it is deemed advisable. HIF will establish a segregated account in which it will maintain liquid assets in an amount at least equal in value to the commitments to purchase securities on a when-issued or delayed delivery basis. If the value of these assets declines, HIF will place additional liquid assets in the account on a daily basis so that the value of the assets in the account is equal to the amount of such commitments.	respect to a when-issued or delayed delivery security prior to its stated delivery date and will establish with the Custodian a segregated account consisting of cash, U.S. government securities or other liquid high grade debt obligations, in an amount equal to the amount of the when-issued and delayed delivery purchase commitments.	
HIF may lend securities from its portfolio if liquid assets in an amount at least equal to the current market value of the securities loaned (including accrued interest thereon) plus the interest payable to HIF with respect to the loan is maintained by HIF in a segregated account.	HIO is authorized to lend securities it holds to brokers, dealers and other financial organizations. Loans of HIO s securities, if and when made, may not exceed 20% of HIO s assets taken at value. HIO s loans of securities will be collateralized by cash, letters of credit or U.S. government securities that will be maintained at all times in a segregated account in an amount equal to the current market value of the loaned securities. From time to time, HIO may pay a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party that is unaffiliated with HIO and that is acting as a finder.	Both Funds may lend securities. Loans of HIO s securities may not exceed 20% of its total assets.
Any securities that HIF may receive as collateral will not become a part of its portfolio at the time of the loan and, in the event of a default by the borrower, HIF will, if permitted by law, dispose of such collateral except for such part thereof that is a security in which it is permitted to invest. During the time securities are on loan, the borrower will pay HIF any accrued income on those securities, and HIF may invest the cash collateral and earn additional income or receive an agreed-upon fee from a borrower that has delivered cash equivalent collateral. Cash collateral received by HIF will be invested in securities in which it is permitted to invest. The value of securities loaned will be marked to market daily. Portfolio securities purchased with cash collateral are subject to possible depreciation. Loans of securities by HIF will be subject to termination at HIF s or the borrower s option. HIF may pay reasonable negotiated fees in connection with loaned securities, so long as such fees	The portfolio will adhere to the following conditions whenever it lends its securities: (1) HIO must receive at least 100% cash collateral or equivalent securities from the borrower, which amount of collateral will be maintained by daily marking to market; (2) the borrower must increase the collateral whenever the market value of the securities loaned rises above the level of the collateral; (3) HIO must be able to terminate the loan at any time; (4) HIO must receive reasonable interest on the loan, as well as any dividends, interest or other distributions on the loaned securities,	

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
are set forth in a written contract and approved by HIF s Board of Directors.	and any increase in market value; (5) HIO may pay only reasonable custodian fees in connection with the loan; and (6) voting rights on the loaned securities may pass to the borrower, except that, if a material event adversely affecting the investment in the loaned securities occurs, HIO s Board of Directors must terminate the loan and regain HIO s right to vote the securities.	
HIF may invest up to 20% of the value of its total assets, measured at the time of investment, in illiquid securities, for which there is a limited trading market and for which a low trading volume of a particular security may result in abrupt and erratic price movements. HIF is not required by its limitation on investments in illiquid securities to dispose of such securities if the proportion of its total assets represented by illiquid securities exceeds 20% due to market changes.	HIO may invest up to 15% of its assets in illiquid securities.	HIO may only invest up to 15% of its assets in illiquid securities, while HIF may invest up to 20%.
HIF may purchase certain restricted securities eligible for sale to qualified institutional buyers as contemplated by recently adopted Rule 144A under the Securities Act.	No corresponding policy.	HIO has no explicit policy with respect to restricted securities.
HIF may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, as well as purchasing put or call options on currencies, in U.S. or foreign markets. HIF will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market, or through entering into forward, futures or options contracts to purchase or sell foreign currencies.	HIO may engage in currency exchange transactions and purchase exchange-traded put and call options on foreign currencies. HIO will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the rate prevailing in the currency exchange market or through entering into forward contracts to purchase or sell currencies. HIO s dealings in forward currency exchange transactions will be limited to hedging involving either specific transactions or portfolio positions. HIO will not position hedge with respect to a particular currency to an extent greater than the aggregate market value at any time of the security or securities held in its portfolio denominated or quoted in or currently convertible (such as through	Both funds may engage in currency exchange transactions on a spot basis and in currency hedging transactions. HIO has specific restrictions for covering its currency hedging transactions.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
	exercise of an option or consummation of a forward currency contract) in that particular currency. If HIO enters into a transaction hedging or position hedging transaction, it will cover the transaction through one or more of the following methods: (a) ownership of the underlying currency or an option to purchase such currency; (b) ownership of an option to enter into an offsetting forward currency contract; (c) entering into a forward contract to purchase currency being sold or to sell currency being purchased, provided that such covering contract is itself covered by any one of these methods unless the covering contract closes out the first contract; or (4) depositing into a segregated account with the custodian or a sub-custodian of HIO cash or readily marketable securities in an amount equal to the value of its total assets committed to the consummation of the forward currency contract and not otherwise covered. In the case of transaction hedging, any securities placed in the account must be liquid debt securities. In any case, if the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will equal the above amount. Hedging transactions may be made from any foreign currency into dollars or into other appropriate currencies.	
No corresponding policy.	HIO may purchase put options on a foreign currency in which securities held by it are denominated to protect against a decline in the value of the currency in relation to the currency in which the exercise price is denominated. Options on foreign currencies purchased by HIO may be traded on domestic and foreign exchanges or traded over-the-counter.	HIF has no explicit policy regarding this category of derivatives.
No corresponding policy.	HIO may make short sales of securities in order to reduce market exposure and/or to increase its income	HIF may not engage in short-sales.

HIF (Target Fund)	HIO (Acquiring Fund)	Certain Differences between Funds
	if, at all times when a short position is open, HIO owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of the securities sold short. Short sales of this kind are referred to as short sales against the box. HIO will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of HIO s total assets (taken at current value) may be held as collateral for such sales at any one time.	
HIF may not purchase any securities which would cause more than 25% of the value of its total assets at the time of such purchase to be invested in securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investment in obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or repurchase agreements collateralized by any of such obligations.	HIO may invest in direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities, which includes Treasury Bills, Treasury Notes and Treasury Bonds. Included among the securities issued by U.S. government agencies and instrumentalities are: Securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds).	Essentially no difference.
HIF may invest in dollar rolls, asset-backed securities and mortgage-backed securities.	HIO may invest in dollar rolls, asset-backed securities and mortgage-backed securities.	No difference.
	HIO may not purchase additional fixed income securities rated by more than one rating agency lower than B if more than 10% of assets are invested in such securities.	

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

Default, or the market s perception that an issuer is likely to default, could reduce the value and liquidity of securities held by HIO, thereby reducing the value of your investment in HIO s Common Shares. In addition, default may cause HIO to incur expenses in seeking recovery of principal or interest on its portfolio holdings. In any reorganization or liquidation proceeding relating to a portfolio company, HIO may lose its entire investment or may be required to accept cash or securities with a value less than its original investment. Among the risks inherent in investments in a troubled entity is the fact that it frequently may be difficult to obtain information as to the true financial condition of such issuer. Western Asset s judgment about the credit quality of an issuer and the relative value of its securities may prove to be wrong. Investments in below investment grade securities may present special tax issues for HIO to the extent that the issuers of these securities default on their obligations pertaining thereto, and the U.S. federal income tax consequences to HIO as a holder of such distressed securities may not be clear.

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

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

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

Since 2010, the risks of investing in foreign sovereign debt have increased dramatically as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on HIO s investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of HIO. Moreover, as the European debt crisis has progressed, the possibility of one or more Eurozone countries exiting the European monetary union, or even the collapse of the Euro as a common currency, has arisen. The effects of the collapse of the Euro, or of the exit of one or more countries from the European monetary union, on the United States and the global economy and securities markets are impossible to predict and any such events could have a significant adverse impact on the value and risk profile of HIO. See Risk Factors Currency Risk.

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

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

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

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

Derivatives Risk. HIO may utilize a variety of derivative instruments such as options, floors, caps and collars, futures contracts, forward contracts, options on futures contracts and indexed securities. Generally derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates and related indexes. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, credit risk and management risk. Derivatives are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. Changes in the credit quality of the companies that serve as HIO s counterparties with respect to its derivative transactions will affect the value of those instruments. By using derivatives that expose HIO to counterparties, HIO assumes the risk that its counterparties could experience financial hardships that could call into question their continued ability to perform their obligations. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If HIO is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, HIO will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. As a result, concentrations of such derivatives in any one counterparty would subject HIO to an additional degree of risk with respect to defaults by such counterparty. See Counterparty Risk . Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances and there can be no assurance that HIO will engage in these transactions to reduce exposure to other risks when that would be beneficial. If HIO invests in a derivative instrument, it could lose more than the principal amount invested. Changes to the derivatives markets as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act and other government regulation may have an adverse effect on HIO s ability to make use of derivative transactions.

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

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

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

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

Repurchase Agreements Risk. Subject to its investment objectives and policies, HIO may invest in repurchase agreements for investment purposes. Repurchase agreements typically involve the acquisition by HIO of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The agreement provides that HIO will sell the securities back to the institution at a fixed time in the future. HIO does not bear the risk of a decline in the value of the underlying security unless the seller defaults under its repurchase obligation. In the event of the bankruptcy or other default of a seller of a repurchase agreement, HIO could experience both delays in liquidating the underlying securities and losses, including possible decline in the value of the underlying security during the period in which HIO seeks to enforce its rights thereto; possible lack of access to income on the underlying security during this period; and expenses of enforcing its rights. In addition, as described above, the value of the collateral underlying the repurchase agreement will be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, HIO generally will seek to liquidate such collateral. However, the exercise of HIO s right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, HIO could suffer a loss.

Reverse Repurchase Agreements Risk. To the extent that HIO utilizes reverse repurchase agreements, it is a form of leverage and therefore involves many of the same risks involved in HIO s use of leverage described above, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is a risk that the market value of the securities sold by HIO in the reverse repurchase agreement may decline below the price at which HIO remains obligated to repurchase such securities. In addition, there is a risk that the market value of the securities retained by HIO may decline. If the buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, HIO may be adversely affected. Also, in entering into reverse repurchase agreements, HIO would bear the risk of loss to the extent that the proceeds of the reverse repurchase agreement are less than the value of the underlying securities. In addition, due to the interest costs associated with reverse repurchase agreement transactions, HIO s NAV will decline, and, in some cases, HIO may be worse off than if it had not used such instruments.

Management Risk. HIO is subject to management risk because it is an actively managed investment portfolio. Western Asset, Western Asset Limited and each individual investment professional may not be successful in selecting the best performing securities or investment techniques, and HIO s performance may lag behind that of similar funds.

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

Common Stock Risk. The Fund may invest up to 20% of its assets in common stocks equivalents. Generally, HIO has a greater flexibility to invest in equity securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. In addition, the prices of common stocks are sensitive to general movements in the stock market, and a drop in the stock market may depress the prices of common stocks to which the Fund has exposure. Common stock prices fluctuate for several reasons including changes in investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting an issuer occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase. The value of the common stocks in which the Fund may invest will be affected by changes in the stock markets generally, which may be the result of domestic or international political or economic news, changes in interest rates or changing investor sentiment. At times, stock markets can be volatile and stock prices can change substantially. The common stocks of smaller companies are more sensitive to these changes than those of larger companies. Common stock risk will affect the Fund s net asset value per share, which will fluctuate as the value of the securities held by the Fund change.

Preferred Stock Risk. HIO invests, under normal market conditions, at least 80% of its net assets plus any borrowings for investment purposes in high-yielding corporate debt securities and preferred stocks. Generally, HIO has a greater flexibility to invest in equity securities. Preferred stocks are unique securities that combine some of the characteristics of both common stocks and bonds. Preferred stocks generally pay a fixed rate of return and are sold on the basis of current yield, like bonds. However, because they are equity securities, preferred stock provides equity ownership of a company, and the income is paid in the form of dividends. Preferred stocks typically have a yield advantage over common stocks as well as comparably-rated fixed income investments. Preferred stocks are typically subordinated to bonds and other debt instruments in a company s capital structure, in terms of priority to corporate income, and therefore will be subject to greater credit risk than those debt instruments. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer s board of directors. Preferred stocks also may be subject to optional or mandatory redemption provisions.

Convertible Securities Risk. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. Before conversion, convertible securities have characteristics similar to nonconvertible income securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities. Similar to traditional fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. The credit standing of the issuer and other factors also may have an effect on the convertible security s investment value. Convertible securities rank senior to common stock in a corporation s capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security s governing instrument.

Senior Loans Risk. HIO may invest in first lien senior secured loans (Senior Loans) issued by banks, other financial institutions, and other investors to corporations, partnerships, limited liability companies and other entities to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, debt refinancings and, to a lesser extent, for general operating and other purposes. An investment in Senior Loans involves risk that the borrowers under Senior Loans may default on their obligations to pay principal or interest when due. In the event a borrower fails to pay scheduled interest or principal payments on a Senior Loan held by HIO, HIO will experience a reduction in its income and a decline in the market value of the Senior Loan, which will likely reduce dividends and lead to a decline in the net asset value of HIO. If HIO acquires a Senior Loan from another lender, for example, by acquiring a participation, HIO may also be subject to credit risks with respect to that lender.

HIO will generally invest in Senior Loans that are secured with specific collateral. However, there can be no assurance that liquidation of collateral would satisfy the borrower s obligation in the event of non-payment or that such collateral could be readily liquidated. In the event of the bankruptcy of a borrower, HIO could experience delays and limitations on its ability to realize the benefits of the collateral securing the Senior Loan. Senior Loans are typically structured as floating rate instruments in which the interest rate payable on the obligation fluctuates with interest rate changes. As a result, the yield on Senior Loans will generally decline in a falling interest rate environment causing HIO to experience a reduction in the income it receives from a Senior Loan. Senior Loans are generally of below investment grade quality and may be unrated at the time of investment; are generally not registered with the SEC or state securities commissions; and are generally not listed on any securities exchange. In addition, the amount of public information available on Senior Loans is generally less extensive than that available for other types of assets.

Second Lien Loans Risk. Second senior secured lien loans (Second Lien Loans) generally are subject to similar risks as those associated with investments in Senior Loans. Because Second Lien Loans are subordinated or unsecured and thus lower in priority of payment to Senior Loans, they are subject to the additional risk that the cash flow of the borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Second Lien Loans generally have greater price volatility than Senior Loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in Second Lien Loans, which would create greater credit risk exposure for the holders of such loans. Second Lien Loans share the same risks as other below investment grade securities.

Loan Participations and Assignments Risk. HIO may invest in participations in loans or assignments of all or a portion of loans from third parties. In connection with purchasing participations, HIO generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and HIO may not directly benefit from any collateral supporting the loan in which it has purchased the participation. As a result, HIO may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, HIO may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower. Certain participations may be structured in a manner designed to avoid purchasers of participations being subject to the credit risk of the lender with respect to the participation, but even under such a structure, in the event of the lender s insolvency, the lender s servicing of the participation may be delayed and the assignability of the participation impaired. HIO will acquire participations only if the lender interpositioned between HIO and the borrower is determined by Western Asset to be creditworthy.

Middle Market Companies Risk. HIO may invest in middle market securities. Investing in middle market companies involves a number of significant risks, including but not limited to:

- companies may have limited financial resources and may be unable to meet their obligations under their debt securities that HIO may hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our realizing any guarantees HIO may have obtained in connection with an investment;
- middle market companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and changing market conditions, as well as general economic downturns;
- middle market companies are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the issuer;
- middle market companies generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- middle market companies may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

Counterparty Risk. Changes in the credit quality of the companies that serve as HIO s counterparties (whether a clearing corporation in the case of cleared instruments or another third party in the case of uncleared instruments) with respect to derivatives or other transactions supported by another party s credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, HIO may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy dissolution, assignment for the benefit of creditors, liquidation, winding-up or analogous or other reorganization proceeding. HIO may obtain only a limited recovery or may obtain no recovery in such circumstances. Some, but not all, derivative transactions may be cleared, in which case a central clearing counterparty stands between the direct parties to the derivative transaction and effectively guarantees performance of each contract, to the extent of its available resources for such purpose. Uncleared derivative transactions have no such protection; each party bears the risk that its direct counterparty will default. Counterparty risk with respect to certain exchange-trade and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation. See Derivatives Risk above for more information.

Credit Default Swap Risk. HIO may invest in credit default swap transactions for hedging or investment purposes. Credit default swap agreements involve greater risks than if HIO had invested in the reference obligation directly since, in addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risk. The buyer in a credit default contract is obligated to pay the seller a periodic stream of payments over the term of the contract, provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or par value, of the reference obligation through either physical settlement or cash settlement. HIO may be either the buyer or seller in a credit default swap transaction. If HIO is a buyer and no event of default occurs, HIO will have made a series of periodic payments and recover nothing of monetary value. However, if an event of default occurs, HIO (if the buyer) will receive the full notional value of the reference obligation either through a cash payment in exchange for the asset or a cash payment in addition to owning the reference assets. As a seller, HIO receives a fixed rate of income throughout the term of the contract, which typically is between six months and five years, provided that there is no event of default. The sale of a credit default swap is a form of leverage. HIO currently

segregates assets on HIO s records in the form of cash, cash equivalents or liquid securities in an amount equal to the notional value of the credit default swaps of which it is the seller or otherwise covers such obligations. If such assets are not fully segregated or otherwise covered by HIO, the use of credit default swap transactions could then be considered senior securities for purposes of the 1940 Act. Recent market developments related to credit default swaps have prompted increased scrutiny with respect to these instruments. As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, credit default swaps may in the future be subject to increased regulation. Such regulation may limit HIO s ability to use credit default swaps. Although HIO will seek to realize gains by writing credit default swaps that increase in value, to realize gains on writing credit default swaps, an active secondary market for such instruments must exist or HIO must otherwise be able to close out these transactions at advantageous times. If no such secondary market exists or HIO is otherwise unable to close out these transactions at advantageous times, writing credit default swaps may not be profitable for HIO.

The market for credit default swaps has become more volatile in recent years as the creditworthiness of certain counterparties has been questioned and/or downgraded. If a counterparty s credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase the risk that HIO may not receive adequate collateral. As of the date of this prospectus, credit default swaps are not currently traded on any securities exchange, however certain credit default swaps will be cleared through swaps clearing houses. HIO may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause HIO to incur more losses.

Structured Notes and Related Instruments Risk. HIO may invest in structured notes and other related instruments, which are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets, such as indexes reflecting bonds. Structured instruments may be issued by corporations, including banks, as well as by governmental agencies. Structured instruments frequently are assembled in the form of medium-term notes, but a variety of forms are available and may be used in particular circumstances. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but ordinarily not below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending on a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index(es) or other asset(s). Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss.

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

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

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

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

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

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

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

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

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

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

Rating Agency Risk. Credit ratings are issued by rating agencies which are private services that provide ratings of the credit quality of debt obligations, including convertible securities. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks or the liquidity of securities. Rating agencies may fail to make timely changes in credit ratings and an issuer s current financial condition may be better or worse than a rating indicates. In addition, in recent years there have been instances in which the initial rating assigned by a rating agency to a security failed to take account of adverse economic developments which subsequently occurred, leading to losses that were not anticipated based on the initial rating. To the extent that the issuer of a security pays a rating agency for the analysis of its security, an inherent conflict of interest may exist that could affect the reliability of the rating. The ratings of a debt security may change over time. As a result, debt instruments held by HIO could receive a higher rating or a lower rating during the period in which they are held. HIO will not necessarily sell a security when its rating is reduced below its rating at the time of purchase.

United States Credit Rating Downgrade Risk. On August 5, 2011, S&P lowered its long-term sovereign credit rating on the U.S. to AA+ from AAA. The downgrade by S&P could increase volatility in both stock and bond markets, result in higher interest rates and higher Treasury yields and increase the costs of all kinds of debt. These events could have significant adverse effects on the economy generally and could result in significant adverse impacts on issuers of securities held by HIO. Neither LMPFA nor Western Asset can predict the effects of these or similar events in the future on the U.S. economy and securities markets or on HIO s portfolio. LMPFA and Western Asset monitor developments and seek to manage HIO s portfolio in a manner consistent with achieving HIO s investment objectives, but there can be no assurance that they will be successful in doing so and LMPFA and Western Asset may not timely anticipate or manage existing, new or additional risks, contingencies or developments.

Mortgage-Backed Securities Risks. Mortgage-backed securities include, among other things, participation interests in pools of residential mortgage loans purchased from individual lenders by a federal agency or originated and issued by private lenders and involve, among others, the following risks:

Credit and Market Risks of Mortgage-Backed Securities. Investments by HIO in fixed rate and floating rate mortgage-backed securities will entail credit risks (i.e., the risk of non-payment of interest and principal) and market risks (i.e., the risk that interest rates and other factors could cause the value of the instrument to decline). Many issuers or servicers of mortgage-backed securities may guarantee timely payment of interest and principal on the securities, whether or not payments are made when due on the underlying mortgages. This kind of guarantee generally increases the quality of a security, but does not mean that the security s market value and yield will not change. The value of all mortgage-backed securities also may change because of changes in the market s perception of the creditworthiness of the organization that issued or guarantees them. In addition, an unexpectedly high rate of defaults on the mortgages held by a mortgage pool may limit substantially the pool s ability to make payments of principal or interest to HIO as a holder of such securities, reducing the values of those securities or in some cases rendering them worthless. HIO also may purchase securities that are not guaranteed or subject to any credit support.

Like bond investments, the value of fixed rate mortgage-backed securities will tend to rise when interest rates fall, and fall when rates rise. Floating rate mortgage-backed securities will generally tend to have more moderate changes in price when interest rates rise or fall, but their current yield will be affected.

In addition, the mortgage-backed securities market in general may be adversely affected by changes in governmental legislation or regulation. Factors that could affect the value of a mortgage-backed security include, among other things, the types and amounts of insurance which an individual mortgage or that specific mortgage-backed security carries, the default and delinquency rate of the mortgage pool, the amount of time the mortgage loan has been outstanding, the loan-to-value ratio of each mortgage and the amount of overcollateralization or undercollateralization of a mortgage pool.

Ongoing developments in the residential mortgage market may have additional consequences to the market for mortgage-backed securities. Delinquencies and losses generally have been increasing with respect to securitizations involving residential mortgage loans and may continue to increase as a result of the weakening housing market and the seasoning of securitized pools of mortgage loans. Many so-called sub-prime mortgage pools are currently distressed and in some cases may be trading at significant discounts to their face value.

Additionally, mortgage lenders recently have adjusted their loan programs and underwriting standards, which has reduced the availability of mortgage credit to prospective mortgagors. This has resulted in reduced availability of financing alternatives for mortgagors seeking to refinance their mortgage loans. The reduced availability of refinancing options for mortgagors has resulted in higher rates of delinquencies, defaults and losses on mortgage loans, particularly in the case of, but not limited to, mortgagors with adjustable rate mortgage loans or interest-only mortgage loans that experience significant increases in their monthly payments following the adjustment date or the end of the interest-only period (see Adjustable Rate Mortgages below for further discussion of adjustable rate mortgage risks). These events, alone or in combination with each other and with deteriorating economic conditions in the general economy, may continue to contribute to higher delinquency and default rates on mortgage loans. The tighter underwriting guidelines for residential mortgage loans, together with lower levels of home sales and reduced refinance activity, also may have contributed to a reduction in the prepayment rate for mortgage loans generally and this trend may continue. The values of mortgage-backed securities may be substantially dependent on the servicing of the underlying mortgage pools, and therefore are subject to risks associated with the negligence or malfeasance by their servicers and to the credit risk of their servicers. In certain circumstances, the mishandling of related documentation also may affect the rights of security holders in and to the underlying collateral.

The United States Government conservatorship of Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Corporation (Fannie Mae) in September 2008 may adversely affect the real estate market and the value of real estate assets generally. It is unclear as of the date of this prospectus what the ultimate resolution of the conservatorship arrangement will be and what impact that resolution will have on the financial markets.

The Federal Housing Finance Agent (FHFA), as conservator or receiver of Fannie Mae and Freddie Mac, has the power to repudiate any contract entered into by Fannie Mae or Freddie Mac prior to its appointment if it determines that performance of the contract is burdensome and repudiation of the contract promotes the orderly administration of Fannie Mae s or Freddie Mac s affairs. In the event the guaranty obligations of Fannie Mae or Freddie Mac are repudiated, the payments of interest to holders of Fannie Mae or Freddie Mac mortgage-backed securities would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such mortgage-backed securities are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such mortgage-backed security holders.

Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of Fannie Mae or Freddie Mac without any approval, assignment or consent. If FHFA were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac mortgage-backed securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

Prepayment, Extension and Redemption Risks of Mortgage-Backed Securities. Mortgage-backed securities may reflect an interest in monthly payments made by the borrowers who receive the underlying mortgage loans. Although the underlying mortgage loans are for specified periods of time, such as 20 or 30 years, the borrowers can, and historically have, paid them off sooner. When a prepayment happens, a portion of the mortgage-backed security which represents an interest in the underlying mortgage loan will be prepaid. A borrower is more likely to prepay a mortgage which bears a relatively high rate of interest. This means that in times of declining interest rates, a portion of HIO s higher yielding securities are likely to be redeemed and HIO will probably be unable to replace them with securities having as great a yield. Prepayments can result in lower yields to shareholders. The increased likelihood of prepayment when interest rates decline also limits market price appreciation of mortgage-backed securities. This is known as prepayment risk. Mortgage-backed securities also are subject to extension risk. Extension risk is the possibility that rising interest rates may cause prepayments to occur at a slower than expected rate. This particular risk may effectively change a security which was considered short or intermediate term into a long-term security. The values of long-term securities generally fluctuate more widely in response to changes in interest rates than short or intermediate-term securities. In addition, a mortgage-backed security may be subject to redemption at the option of the issuer. If a mortgage-backed security held by HIO is called for redemption, HIO will be required to permit the issuer to redeem or pay-off the security, which could have an adverse effect on HIO s ability to achieve its investment objective.

Liquidity Risk of Mortgage-Backed Securities. The liquidity of mortgage-backed securities varies by type of security; at certain times HIO may encounter difficulty in disposing of such investments. Because mortgage-backed securities have the potential to be less liquid than other securities, HIO may be more susceptible to liquidity risks than funds that invest in other securities. In the past, in stressed markets, certain types of mortgage-backed securities suffered periods of illiquidity when disfavored by the market.

Collateralized Mortgage Obligations. There are certain risks associated specifically with collateralized mortgage obligations (CMOs). CMOs are debt obligations collateralized by mortgage loans or mortgage pass-through securities. The average life of CMOs is determined using mathematical models that incorporate prepayment assumptions and other factors that involve estimates of future economic and market conditions. These estimates may vary from actual future results, particularly during periods of extreme market volatility. Further, under certain market conditions, such as those that occurred in 1994, 2007, 2008 and 2009, the average weighted life of certain CMOs may not accurately reflect the price volatility of such securities. For example, in periods of supply and demand imbalances in the market for such securities and/or in periods of sharp interest rate movements, the prices of CMOs may fluctuate to a greater extent than would be expected from interest rate movements alone. CMOs issued by private entities are not obligations issued or guaranteed by the United States Government, its agencies or instrumentalities and are not guaranteed by any government agency, although the securities underlying a CMO may be subject to a guarantee. Therefore, if the collateral securing the CMO, as well as any third party credit support or guarantees, is insufficient to make payments when due, the holder could sustain a loss.

Adjustable Rate Mortgages. Adjustable Rate Mortgages (ARMs) contain maximum and minimum rates beyond which the mortgage interest rate may not vary over the lifetime of the security. In addition, many ARMs provide for additional limitations on the maximum amount by which the mortgage interest rate may adjust for any single adjustment period. Alternatively, certain ARMs contain limitations on changes in the required monthly payment. In the event that a monthly payment is not sufficient to pay the interest accruing on an ARM, any excess interest is added to the principal balance of the mortgage loan, which is repaid through future monthly payments. If the monthly payment for such an instrument exceeds the sum of the interest accrued at the applicable mortgage interest rate and the principal payment required at such point to amortize the outstanding principal balance over the remaining term of the loan, the excess is used to reduce the then-outstanding principal balance of the ARM.

In addition, certain ARMs may provide for an initial fixed, below-market or teaser interest rate. During this initial fixed-rate period, the payment due from the related mortgagor may be less than that of a traditional loan. However, after the teaser rate expires, the monthly payment required to be made by the mortgagor may increase dramatically when the interest rate on the mortgage loan adjusts. This increased burden on the mortgagor may increase the risk of delinquency or default on the mortgage loan and in turn, losses on the mortgage-backed security into which that loan has been bundled.

Interest and Principal Only Securities Risk. One type of stripped mortgage-backed security pays to one class all of the interest from the mortgage assets (the interest-only, or IO class), while the other class will receive all of the principal (the principal-only, or PO class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on HIO s yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, HIO may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

Investments in mortgage-related securities may involve particularly high levels of risk under current market conditions.

Government Intervention in Financial Markets Risk. The recent instability in the financial markets has led the U.S. government and foreign governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. The impact of these measures is not yet known and cannot be predicted. U.S. federal and state governments and foreign governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities in which HIO invests, or the issuers of such securities, in ways that are unforeseeable. Legislation or regulation may also change the way in which HIO itself is regulated. Such legislation or regulation could limit or preclude HIO s ability to achieve its investment objectives. Western Asset will monitor developments and seek to manage HIO s portfolio in a manner consistent with achieving HIO s investment objectives, but there can be no assurance that it will be successful in doing so.

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

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

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

Current Economic Conditions Credit Crisis Liquidity and Volatility Risk. The markets for credit instruments, including fixed income securities, have experienced periods of extreme illiquidity and volatility since the latter half of 2007. Tightening of credit conditions occurred just as a record amount of corporate bonds (as measured by transaction volume) were scheduled to enter the markets in the third quarter of 2007. This imbalance has caused a significant dislocation in the markets, marked by sharply widened credit spreads, delayed high-yield bond offerings and a general reduction in liquidity. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have also resulted in significant valuation uncertainties in a variety of debt securities, including certain fixed income securities. In addition, during 2008, several major dealers of fixed income securities exited the market via acquisition or bankruptcy. These conditions resulted, and in many cases continue to result in greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. During times of reduced market liquidity HIO may not be able to sell securities readily at prices reflecting the values at which the securities are carried on HIO s books. Sales of large blocks of securities by market participants, such as HIO, that are seeking liquidity can further reduce security prices in an illiquid market. These market conditions may make valuation of some of HIO s securities uncertain and/or result in sudden and significant valuation increases or decreases in its holdings. Illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Stock.

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

INFORMATION ABOUT THE PROPOSED MERGER

The Agreement and Plan of Merger

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

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

HIF will then:

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

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

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

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

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

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

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

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

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

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

Approval of the Agreement and Plan of Merger requires the affirmative vote of a majority of the outstanding HIF Common Shares. See Voting Information below. Because HIO is the successor corporation in the Merger, the Maryland General Corporation Law does not require stockholders of HIO to approve the Merger. Moreover, because of the comparative sizes of HIF and HIO, the NYSE rules do not require stockholders of HIO to approve the Merger.

Reasons for the Merger and Board Considerations

Board Considerations

The proposed Merger was presented to the Board of each Fund for consideration at simultaneous meetings held on February 13 and 14, 2013, and was approved by both Boards at that meeting. In considering the proposal, the Boards did not identify any single factor or piece of information as all-important or controlling, although significant weight was given to Western Asset s analysis that HIF stockholders total expense ratio is anticipated to decline as a result of the proposal. Following extensive discussions, based on its evaluation of all material factors to both Funds participating in the proposed Merger, including those described below, the Board of each Fund, including all of the Independent Directors, determined, with respect to its Fund, that: (1) the Merger would be in the best interests of that Fund; and (2) the Merger would not result in the dilution of the interests of that Fund or its stockholders.

In recommending the Merger, HIF s Board, with the advice of counsel to HIF s Independent Directors, considered a number of factors, including the following:

- The investment programs of the Funds are substantially similar with the exception that a much larger portion of HIF s portfolio is allocated to emerging markets investments. In addition, the performance of the Funds has been comparable over the one, three, five and ten year periods ended November 30, 2012.

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

- The stockholders of the Funds may benefit from a more streamlined high yield product offering, allowing for more focused marketing and shareholder servicing efforts.

- HIF stockholders may benefit from exposure to the greater diversification of assets afforded by the larger size of HIO, despite a significantly reduced exposure to emerging markets.

- The advisory and other services provided to HIF by LMPFA and its affiliates are not profitable while the advisory and other services provided to HIO by LMPFA and its affiliates are profitable.

HIF stockholders will pay a higher management fee to LMPFA in the combined Fund, but the total expense ratio of the combined HIO post-merger will be about 0.20% less than HIF s current expense ratio.

- HIF stockholders may benefit from increased trading liquidity, as HIO has an average daily dollar trading volume more than eight times that of HIF.

- HIF stockholders may benefit from the capital loss carryforward of HIO.

- At March 11, 2013, HIO shares traded at a premium to their NAV, as opposed to HIF shares which traded at a discount, although there can be no assurances that this will continue to be the case.

- HIO stockholders may benefit from the capital loss carry over of HIF as HIF s capital loss carryforward will move to the merged Fund, although an estimated half of HIF s carryforwards will expire unutilized.

Federal Income Tax Consequences

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

- stockholders that are not U.S. holders;

- financial institutions;

- insurance companies;

- tax-exempt organizations;

- dealers in securities or currencies;

- persons whose functional currency is not the U.S. dollar;

- traders in securities that elect to use a mark-to-market method of accounting;

- persons that hold HIF Common Shares as part of a straddle, hedge, constructive sale or conversion transaction; and

- U.S. holders who acquired their HIF Common Shares through the exercise of an employee stock option or otherwise as compensation.

If a partnership or other entity taxed as a partnership holds HIF Common Shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors about the tax consequences of the Merger to them.

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

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

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

- a citizen or resident of the United States;

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

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

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

Tax Consequences of the Merger Generally

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

(i) the Merger as provided in the Agreement and Plan of Merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Code and that HIF and HIO will each be a party to a reorganization within the meaning of Section 368(b) of the Code;

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

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

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

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

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

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

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

(ix) the payment of cash to the holders of HIF Common Shares in lieu of fractional HIO Common Shares will be treated as though such fractional shares were distributed as part of the Merger and then redeemed by HIO with the result that the holder of HIF Common Shares will generally have a capital gain or loss to the extent the cash distribution differs from such stockholder s basis allocable to the fractional HIO Common Shares.

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

Information Reporting and Backup Withholding

Cash payments received in the Merger by a holder of HIF Common Shares may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption, furnishes its taxpayer identification number (in the case of individuals, their social security number) or provides a certification of foreign status on IRS Form W-8BEN or other appropriate form, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s federal income tax liability, provided the required information is timely furnished to the IRS.

Reporting Requirements

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

Other Tax Considerations

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

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

Information Regarding Tax Capital Loss Carryforwards

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

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

Under Section 384 of the Code, if HIO or HIF has a net unrealized gain inherent in its assets at the time of the Merger, then, under certain circumstances, that gain, to the extent realized within five years following the Merger, may not be offset by a carryover of losses realized prior to the Merger (other than a carryover of that Fund s own losses) or, in certain cases, by a net unrealized loss inherent at the time of the Merger in the assets of the other Fund.

As of December 31, 2012, the Funds are entitled to capital loss carryovers for federal income tax purposes in the amounts set forth below:

	HIF		HIO	
	Amount of Carryforward	Fiscal Year of Expiration Prior to Merger	Amount of Carryforward	Fiscal Year of Expiration Prior to Merger
	$ (2,204,741)	12/31/2016	$ (2,845,531)	No Expiration[(1)]
	(6,995,312)	12/31/2017	(855,375)	9/30/2016
			(21,593,145)	9/30/2017
			(49,024,877)	9/30/2018
			(11,684,123)	9/30/2019
Total	$ (9,200,053)		$ (86,003,051)	

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

HIF

Based on the recent data referred to above, the Merger would impact the use of HIF s capital loss carryovers in the following manner: (1) the expiration date of the Pre-2011 Losses would be accelerated by one year and realigned to the year of HIO; for example, the carryovers due to expire on December 31, 2016 would expire on September 30, 2015; (2) the Pre-2011 Losses would not be available to be utilized until all Post-2010 Losses of HIO have been used; (3) HIF s carryovers would benefit the shareholders of the combined fund, rather than only the shareholders of HIF; (4) the aggregate amount of the carryovers that could be utilized in any taxable year would be limited to the product of the long-term tax-exempt rate at the time of the Merger and the net asset value of HIF at that time (approximately $1,400,000 per year based on data as of a recent date); and (5) any gains recognized after the Merger attributable to unrealized appreciation in HIO s portfolio at the time of the Merger would not be able to offset the capital loss carryover of HIF.

Based on such data, the combination of the above referenced limitations on the use of loss carryovers would result in some portion (approximately $4,600,000 based on data as of a recent date) of HIF s loss carryovers expiring unused. It should be noted that there would be no assurances that HIF would be able to use such losses in the absence of the Merger. Additionally, HIF shareholders may benefit from the use of HIO s capital loss carryovers by the combined Fund after the Merger.

HIO

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

Information Applicable to Both Funds

The capital loss carryovers and limitations described above may change significantly between now and the Closing Date, expected to be approximately June 14, 2013. Further, the ability of each Fund to use loss carryovers (even in the absence of the Merger) depends on factors other than loss limitations, such as the future realization of capital gains or losses. The effect of the combination of these factors on the use of loss carryovers may result in some portion of the Pre-2011 Losses of either or both of the Funds expiring unused. This may result in shareholders paying more taxes or paying taxes sooner than they otherwise would if the Merger did not occur.

PORTFOLIO SECURITIES

The securities in which HIF may invest are permissible for investment under HIO s investment objectives and strategies. Based on current market conditions which may change, LMPFA estimates that HIF will experience a total portfolio turnover of approximately 5% in connection with the Merger. The sale of these securities will occur prior to the consummation of the Merger. These securities may be sold for more or less than the cost at which such securities were carried. The sale of HIF s portfolio securities will not result in tax to HIF due to the HIF s loss carryforwards available to be used to offset any gains.

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

INFORMATION ABOUT MANAGEMENT OF THE FUNDS

Information About Directors and Officers

The business and affairs of HIF and HIO are managed under the direction of each Fund s Board of Directors. The same individuals serve as the Directors and officers of both HIF and HIO. Information pertaining to the Directors and officers of the Funds is set forth under Proposal 1 above.

Investment Manager and Sub-Advisers

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

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

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

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

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

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

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

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

In connection with Western Asset s service to HIF, Western Singapore provides certain sub-advisory services to HIF pursuant to a sub-advisory agreement dated February 3, 2009. Western Singapore was established in 2000 and has offices at 1 George Street #23-01, Singapore 049145. Western Singapore is responsible, generally, for managing Asian (excluding Japan), Japanese and global and non-U.S. dollar fixed income mandates including the related portions of Western Asset s broader portfolios, as well as servicing these relationships. It undertakes all investment-related activities including investment management, research and analysis, securities settlement and client services. While Western Asset remains ultimately responsible for investment decisions relating to HIF s portfolio, Western Singapore provides certain sub-advisory services to HIF relating to currency transactions and investments in non-U.S. dollar-denominated securities and related foreign currency instruments.

The sub-advisory agreement for HIF between Western Asset and Western Singapore will continue in effect from year to year provided such continuance is specifically approved at least annually (a) by the Board or by a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act), and (b) in either event, by a majority of the Independent Directors with such Independent Directors casting votes in person at a meeting called for such purpose. The Board or a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act) may terminate the Fund s sub-advisory agreement without penalty, in each case on not more than 60 days nor less than 30 days written notice to Western Singapore. Western Singapore may terminate the sub-advisory agreement on 90 days written notice to the Fund and Western Asset. Western Asset and

Western Singapore may terminate the sub-advisory agreement upon their mutual written consent. The sub-advisory agreement will terminate automatically in the event of assignment by Western Singapore and shall not be assignable by Western Asset without the consent of Western Singapore.

HIF currently pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.70% of HIF s average weekly net assets. HIO currently pays LMPFA, which is also HIO s investment manager, an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of average daily net assets.

For each Fund, LMPFA, and not the Fund, pays sub-advisory fees to Western Asset at the rate of 70% of the management fee paid to LMPFA.

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

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

Additional information about the factors considered by the Board of HIO in approving its Investment Management Agreement and Sub-Advisory Agreements is set forth in HIO s Semi-Annual Report to Stockholders for the Semi-Annual Period ending March 31, 2012. Additional information about the factors considered by the Board of HIF in approving its Investment Management Agreement and Sub-Advisory Agreements is set forth in HIF s Annual Report to Stockholders for the Fiscal Year ended December 31, 2012.

Codes of Ethics

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

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

Copies of the Codes of Ethics of the Funds, LMPFA, Western Asset, Western Asset Limited and Western Singapore are on file with the SEC.

Proxy Voting Policies

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

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

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

Investment Professionals of the Funds

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

Name and Address	Length of Time Served	Principal Occupation(s) During Last Five Years
Stephen A. Walsh Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006 (HIF), Since 2006 (HIO)	Co-portfolio manager of the Funds; Chief Investment Officer of Western Asset. Employed as investment management professional with Western Asset during the past 5 years.