WESTERN ASSET CLAYMORE US TREASURY INFLATION PRO SECU FUND
Form N-2/A
December 17, 2003

As filed with the Securities and Exchange Commission on December 17, 2003

==

1933 Act File No. 333-109707
1940 Act File No. 811-21403

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form N-2

/X/ REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

/X/ Pre-Effective Amendment No. 2

/ / Post-Effective Amendment No. ______________________
and
/X/ REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

/X/ Amendment No. 5

Western Asset/Claymore U.S. Treasury Inflation Protected
Securities Fund
(Exact Name of Registrant as Specified in Declaration of Trust)

117 East Colorado Boulevard
Pasadena, California 91105
(Address of Principal Executive Offices)
(Number, Street, City, State, Zip Code)

(626) 844-9400
(Registrant's Telephone Number, including Area Code)

Gregory B. McShea
c/o Western Asset Management Company
117 East Colorado Boulevard
Pasadena, California 91105
(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)

Copies of Communications to:

Bryan Chegwidden, Esq.	Leonard B. Mackey, Jr., Esq.
Ropes & Gray LLP	Clifford Chance US LLP
45 Rockefeller Plaza	200 Park Avenue
New York, NY 10111-0087	New York, NY 10166

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement

----

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. / /

It is proposed that this filing will become effective (check appropriate box)

/X/ when declared effective pursuant to Section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPO AGGRE PRICE
Taxable Auction Market Preferred Shares, Series M	1,640 Shares	$25,000.00	$41,0
Taxable Auction Market Preferred Shares, Series T	1,640 Shares	$25,000.00	$41,0
Taxable Auction Market Preferred Shares, Series W	1,640 Shares	$25,000.00	$41,0
Taxable Auction Market Preferred Shares, Series TH	1,640 Shares	$25,000.00	$41,0
Taxable Auction Market Preferred Shares, Series F	1,640 Shares	$25,000.00	$41,0

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

(2) $20.23 of which has previously been paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states 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 dates as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED DECEMBER 17, 2003

PROSPECTUS

[WESTERN ASSET LOGO] [CLAYMORE LOGO]

$205,000,000
WESTERN ASSET/CLAYMORE U.S. TREASURY INFLATION PROTECTED SECURITIES FUND
TAXABLE AUCTION MARKET PREFERRED SHARES ("AMPS")
1,640 SHARES, SERIES M
1,640 SHARES, SERIES T
1,640 SHARES, SERIES W
1,640 SHARES, SERIES TH

1,640 SHARES, SERIES F
LIQUIDATION PREFERENCE $25,000 PER SHARE

Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund (the "Fund") is a recently organized, diversified, closed-end management investment company. The Fund's primary investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary investment objective.

THE OFFERING. The Fund is simultaneously offering 1,640 Series M Taxable Auction Market Preferred Shares ("Series M AMPS"), 1,640 Series T Taxable Auction Market Preferred Shares ("Series T AMPS"), 1,640 Series W Taxable Auction Market Preferred Shares ("Series W AMPS"),

(CONTINUED ON NEXT PAGE)

INVESTING IN THE AMPS INVOLVES RISKS THAT ARE DESCRIBED IN THE "RISKS" SECTION BEGINNING ON PAGE 27 OF THIS PROSPECTUS. THE MINIMUM PURCHASE AMOUNT OF THE AMPS IS $25,000.

	PER SHARE	TOTAL
Public offering price..................................	$25,000	$205,000,000
Sales load...	$250	$2,050,000
Proceeds, before expenses, to the Fund(1)..............	$24,750	$202,950,000

(1) Not including offering expenses payable by the Fund estimated to be $304,585

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Underwriters are offering the AMPS subject to various conditions. The Underwriters expect to deliver the AMPS, in book-entry form, through the facilities of The Depository Trust Company on or about , 2003.

MERRILL LYNCH & CO.

LEGG MASON WOOD WALKER INCORPORATED

The date of this prospectus is , 2003.

(CONTINUED FROM PREVIOUS PAGE)

1,640 Series TH Taxable Auction Market Preferred Shares ("Series TH AMPS") and 1,640 Series F Taxable Auction Market Preferred Shares ("Series F AMPS"). These shares are referred to together in this prospectus as "AMPS." The AMPS will not be listed on any exchange. Generally, investors may only buy and sell the AMPS through an order placed at an auction with or through a broker-dealer that has entered into an agreement with the auction agent, or in a secondary market that certain broker-dealers may maintain. These broker-dealers are not required to maintain a market in the AMPS, and a secondary market, if one develops, may not provide investors with liquidity.

PORTFOLIO CONTENTS. Under normal market conditions, the Fund will invest at least 80% of its total managed assets in U.S. Treasury Inflation Protected Securities ("U.S. TIPS"). U.S. TIPS are fixed income securities issued by the U.S. Department of the Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation (currently represented by the non-seasonally adjusted Consumer Price Index for All Urban Consumers (the "CPI-U")). The Fund may also invest up to 20% of its total managed assets in corporate bonds or other securities and instruments. The Fund intends to limit its investments to U.S. dollar-denominated securities and instruments, and will not invest in bonds that are below investment grade quality at the time of purchase. Investment grade quality bonds are bonds rated within a rating agency's four highest grades (Baa or BBB or higher by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Group ("S&P") or Fitch Ratings ("Fitch") or a similar rating of another nationally recognized rating agency) or bonds that are unrated but judged to be of comparable quality by the Fund's investment advisor. The Fund may enter into short sales, use reverse repurchase agreements and dollar rolls, and engage in other types of transactions, including derivative transactions (such as options, futures contracts and swaps), for risk management purposes or as part of its investment strategies. The Fund currently expects that the average effective duration of its portfolio will range between zero and 15 years, although this target duration may change from time to time. "Total managed assets" means the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage). There can be no assurance that the Fund will achieve its investment objectives.

INVESTMENT ADVISOR. Western Asset Management Company will act as investment advisor to the Fund. See "Management of the Fund."

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest, and retain it for future reference. A Statement of Additional Information dated   , 2003, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus, which means that it is part of the prospectus for legal purposes. You can review the table of contents of the Statement of Additional Information on page 60 of this prospectus. You may request a free copy of the Statement of Additional Information by calling 1-800-345-7999 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (http://www.sec.gov).

The AMPS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Investors in AMPS will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for the AMPS. The dividend rate for the initial dividend period will be   % for Series M AMPS,   % for Series T AMPS,   % for Series W AMPS,   % for Series TH AMPS and   % for Series F AMPS. The initial dividend period for the AMPS is from the date of issuance through   ,   for Series M AMPS,   ,   for Series T AMPS,   ,   for Series W AMPS,   ,   for Series TH AMPS, and   ,   for Series F AMPS. For subsequent dividend periods, the AMPS will pay dividends based on a rate generally set at auctions held every seven days for each series of the AMPS.* Generally, investors may only buy or sell AMPS

----

* Although auctions to establish the dividend rate for each series of AMPS will normally be held weekly in the absence of a special rate period, the Fund anticipates that the initial auctions for each series of AMPS will not be held until on or about the week of January 12-16, 2004.

through an order placed at an auction with or through a broker-dealer in accordance with the procedures specified in this prospectus. Prospective purchasers should carefully review the auction procedures described in this prospectus, and should note:

- a buy order (called a "bid") or sell order is a commitment to buy or sell AMPS based on the results of an auction; and

- purchases and sales will be settled on the next business day after the auction.

The AMPS have a liquidation preference of $25,000 per share, plus any accumulated, unpaid dividends. The AMPS also have priority over the Fund's common shares of beneficial interest, no par value ("common shares"), as to distribution of assets as described in this prospectus. See "Description of AMPS." The Fund may redeem AMPS as described under "Description of AMPS--Redemption."

The AMPS will not be listed on an exchange. You may only buy or sell AMPS through an order placed at an auction with or through a broker-dealer that has entered into an agreement with the auction agent or in a secondary market maintained by certain broker-dealers. These broker-dealers are not required to maintain this market, and there can be no assurance that a secondary market for the AMPS will develop or, if it does develop, that it will provide holders with a liquid trading market (i.e., trading will depend on the presence of willing buyers and sellers, and the trading price will be subject to variables to be determined at the time of the trade by such broker-dealers). A general increase in the level of interest rates may have an adverse effect on the secondary market price of the AMPS, and an investor that sells AMPS between auctions may receive a price per share of less than $25,000.

The AMPS will be senior to the Fund's outstanding common shares. The Fund's common shares are traded on the New York Stock Exchange under the symbol "WIA." It is a condition of closing this offering that the AMPS be offered with a rating of "Aaa" from Moody's and of "AAA" from Fitch.

TABLE OF CONTENTS

	PAGE
Prospectus Summary	5
Financial Highlights	18
The Fund	19
Use of Proceeds	19
Capitalization	20
Portfolio Composition	20
The Fund's Objectives, Strategies and Investments	21
Risks	27
How the Fund Manages Risk	34
Management of the Fund	36
Description of AMPS	38

The Auction	46
Net Asset Value	50
Description of Capital Structure	51
Anti-Takeover and Other Provisions in the Declaration of Trust	52
Repurchase of Fund Shares; Conversion to Open-End Fund	54
Tax Matters	54
Underwriting	58
Custodian and Transfer Agent; Auction Agent	59
Legal Matters	59
Available Information	59
Table of Contents for the Statement of Additional Information	60

You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not, and the Underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the Underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus. The Fund's business, financial condition, results of operations and prospects may have changed since that date. The Fund will amend or supplement this Prospectus to reflect material changes to the information contained in this Prospectus to the extent required by applicable law.

4

PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the AMPS. You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information.

THE FUND............... Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund is a recently organized, diversified, closed-end management investment company. Throughout this prospectus, Western Asset/ Claymore U.S. Treasury Inflation Protected Securities Fund is referred to simply as the "Fund." The Fund commenced investment operations on September 30, 2003, upon the closing of an initial public offering of 25,250,000 common shares. As of November 20, 2003, the Fund had 28,831,981 common shares outstanding and total managed assets of $616,800,106. The Fund's common shares are traded on the New York Stock Exchange under the symbol "WIA." See "The Fund." The Fund's principal office is located at 117 East Colorado Boulevard, Pasadena, California 91105, and its telephone number is (626) 844-9400.

THE OFFERING........... The Fund is offering 1,640 Series M AMPS, no par value, 1,640 Series T AMPS, no par value, 1,640 Series W AMPS, no par value, 1,640 Series TH AMPS, no par value, and 1,640 Series F AMPS, no par value, each at a purchase price of $25,000 per share plus dividends, if any, that have accumulated from the date the Fund first issues the AMPS. The AMPS are offered through Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Legg Mason Wood Walker, Incorporated (together, the "Underwriters").

The AMPS entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods of the AMPS. In general, except as described under "--Dividends on AMPS" below and "Description of AMPS--Dividends and Rate Periods," the dividend period for each series of the AMPS will be seven days. The auction agent will determine the dividend rate for a particular rate period by an auction conducted on the business day immediately prior to the start of that rate period. See "The Auction."

The AMPS are not listed on an exchange. Instead, investors will generally buy or sell AMPS in an auction by submitting orders to broker-dealers that have entered into an agreement with the auction agent.

Generally, investors in AMPS will not receive certificates representing ownership of their shares. The securities depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's broker-dealer will maintain record ownership of AMPS in book-entry form. An investor's broker-dealer, in turn, will maintain records of that investor's beneficial ownership of AMPS.

INVESTMENT ADVISOR...... Western Asset Management Company, a wholly owned subsidiary of Legg Mason, Inc., serves as the investment advisor to the Fund. Subject to supervision by the Board of Trustees of the Fund (the "Board of Trustees"), Western Asset Management Company is responsible for managing the investment activities of the Fund and certain of the Fund's business affairs and other administrative matters. The Fund will pay Western Asset Management Company an annual fee, payable monthly, in an amount equal to .40% of the Fund's average weekly assets. See "Management of the Fund--Investment Advisor" for more information about Western Asset Management Company and how this fee is calculated. Western Asset Management Company is referred to as "Western Asset" in this prospectus.

INVESTMENT OBJECTIVES... The Fund's primary investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary investment objective. No assurance can be given that the Fund will achieve its investment objectives.

INVESTMENT POLICIES..... Under normal market conditions, the Fund will invest at least 80% of its total managed assets in U.S. TIPS.

U.S. TIPS are fixed income securities issued by the U.S. Department of the Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation (currently represented by the non-seasonally adjusted CPI-U). The Fund may also invest up to 20% of its total managed assets in corporate bonds or other securities and instruments. The Fund intends to limit its investments to U.S. dollar-denominated securities and instruments, and will not invest in bonds that are below investment grade quality at the time of purchase. Investment grade quality bonds are bonds rated within a rating agency's four highest grades (Baa or BBB or higher by Moody's, S&P or Fitch or a similar rating of another nationally recognized rating agency) or bonds that are unrated but judged to be of comparable quality by Western Asset. The Fund may enter into short sales, use reverse repurchase agreements and dollar rolls, and engage in other types of transactions, including derivative transactions (such as options, futures contracts and swaps), for risk management purposes or as part of its investment strategies. The Fund currently expects that the average effective duration of its portfolio will range between zero and 15 years, although this target duration may change from time to time. See "The Fund's Objectives, Strategies and Investments."

LEVERAGE................ The Fund anticipates that, immediately after completion of the offering of AMPS, the AMPS will represent approximately 33% of the Fund's total managed assets. The Fund entered into reverse repurchase agreements and/or dollar roll transactions for leveraging purposes as a substitute for all or a portion of the AMPS offered hereunder during the period prior to their issuance and will continue to enter into such transactions following the issuance of the AMPS to the extent determined by Western Asset. The precise amount of leverage used by the Fund may vary from time to time,

but the AMPS, together with other forms of leverage (including reverse repurchase agreements and dollar roll transactions), will not exceed 38% of its total managed assets. "Total managed assets" means the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating "total managed assets," the liquidation preference of any preferred shares outstanding is not considered a liability.

Although the Fund may in the future offer other preferred shares, the Fund does not currently intend to offer preferred shares other than the AMPS offered in this prospectus. In addition to the forms of leverage described above, the Fund currently expects to use short sales, futures contracts, options, credit default swaps, and/or other transactions that may in certain circumstances be considered leverage. To the extent that the Fund covers its obligations under such transactions by the segregation of liquid assets, by entering into offsetting transactions, or by owning positions covering its obligations, such transactions will not be considered leverage for purposes of the Fund's policy on the amount of leverage it may incur. However, these transactions, even if covered, represent a form of economic leverage (although they will not be considered "leverage" for purposes of calculating total managed assets) and will involve special risks. Although the Fund does not currently intend to borrow from banks or other financial institutions or issue commercial paper in order to leverage its portfolio, it may do so in the future. Bank borrowings and outstanding commercial paper will be included when calculating the amount of the Fund's outstanding leverage.

The Fund generally will not utilize leverage if it anticipates that it would result in a lower return to holders of the Fund's common shares ("Common Shareholders") over time. Use of financial leverage creates an opportunity for increased income for Common Shareholders, but, at the same time, creates the possibility for greater loss (including the likelihood of greater volatility of dividends on the common shares and of the net asset value and market price of the common shares), and there can be no assurance that the Fund's use of leverage will be successful. Because the fees received by Western Asset are based on the average weekly assets of the Fund (including assets represented by the AMPS and other leverage), Western Asset has a financial incentive for the Fund to issue the AMPS and incur other leverage. See "Risks--General Risks of Investing in the Fund--Leverage Risk."

SPECIAL RISK CONSIDERATIONS........ RISKS OF INVESTING IN THE AMPS. Before investing in the AMPS, you should consider certain risks carefully. The primary risks of investing in AMPS are:

- the Fund will generally not be permitted to declare dividends or other distributions with respect to your AMPS or redeem your AMPS unless the Fund meets certain asset coverage

requirements, as discussed in "Description of AMPS--Rating Agency Guidelines and Asset Coverage";

- if an auction fails, you may not be able to sell some or all of your AMPS;

- because of the nature of the market for the AMPS, you may receive less than the price you paid for your AMPS if you sell them outside of the auction, especially when market interest rates are rising;

- a rating agency could downgrade the rating assigned to the AMPS, which could affect the liquidity of your investment;

- the Fund may be forced to redeem your AMPS to meet regulatory or rating agency requirements, and may voluntarily redeem your shares in certain circumstances;

- in certain circumstances the Fund may not earn sufficient income from its investments to pay dividends on AMPS;

- if interest rates rise, the value of the Fund's investment portfolio may decline, reducing the asset coverage for the AMPS; and

- if an issuer of a bond in which the Fund invests experiences financial difficulties or defaults, or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and/or asset value of the Fund's investment portfolio, which will make it more difficult for the Fund to pay dividends on the AMPS and will reduce asset coverage for the AMPS.

In addition to the risks described above, certain general risks relating to an investment in the Fund may under certain circumstances reduce the Fund's ability to pay dividends and meet its asset coverage requirements on the AMPS. These risks include:

LIMITED OPERATING HISTORY. The Fund is a recently organized, diversified, closed-end management investment company that has been operational for fewer than three months.

INTEREST RATE RISK. Interest rate risk is the risk that the bonds in the Fund's portfolio (including U.S. TIPS) will decline in value because of increases in market interest rates. The prices of longer-term bonds generally fluctuate more than prices of shorter-term bonds as interest rates change. Because the Fund will invest primarily in intermediate- to longer-term bonds, the Fund's net asset value will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term bonds. Because market interest rates are currently near their lowest levels in many years, there is a greater risk that the Fund's portfolio will decline in value. The Fund's use of leverage, as described below, will increase interest rate risk. See "Risks--General Risks of Investing in the Fund--Leverage Risk."

RISKS RELATING TO U.S. TIPS. The value of inflation-protected securities such as U.S. TIPS generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of U.S. TIPS. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of U.S. TIPS. Although the principal value of U.S. TIPS declines in periods of deflation, holders at maturity receive no less than the par value of the bond. However, if the Fund purchases U.S. TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, the Fund may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period the Fund holds U.S. TIPS, the Fund may earn less on the securities than on conventional bonds. Any increase in principal value of U.S. TIPS caused by an increase in the CPI-U is taxable in the year the increase occurs, even though the Fund will not receive cash representing the increase at that time. As a result, the Fund could be required at times to liquidate other investments, including when it is not advantageous to do so, in order to satisfy its distribution requirements as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"). See "Tax Matters."

If real interest rates rise (i.e., if interest rates rise due to reasons other than inflation), the value of the U.S. TIPS in the Fund's portfolio will decline. In addition, because the principal amount of U.S. TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in these securities.

The daily adjustment of the principal value of U.S. TIPS is currently tied to the non-seasonally adjusted CPI-U, which is calculated monthly by the U.S. Bureau of Labor Statistics. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. Its calculation includes a three-month lag. There can be no assurance that such index will accurately measure the real rate of inflation in the prices of goods and services.

The U.S. Treasury only began issuing inflation-protected securities in 1997, and the market for such securities may be less developed or liquid, and more volatile, than certain other securities markets as a result. The U.S. Treasury currently issues U.S. TIPS in only ten-year maturities, although U.S. TIPS with different maturities have been issued in the past and may be issued in the future.

CREDIT RISK. Credit risk is the risk that one or more bonds in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the bond experiences a decline in its financial status.

LOWER GRADE AND UNRATED SECURITIES RISK. Although the Fund will not invest in securities that are below investment grade quality at the time of purchase, the Fund is not required to dispose of a security if a rating agency or Western Asset downgrades its assessment of the credit characteristics of a particular issue. As a result the Fund may, from time to time, hold bonds of below investment grade quality. Lower grade securities, or equivalent unrated securities, which are commonly known as "junk bonds," typically entail greater potential price volatility and may be less liquid than higher-rated securities. Lower grade securities are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. These securities may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Unrated securities may be less liquid than comparable rated securities and involve the risk that Western Asset may not accurately evaluate the security's comparative credit rating. Analysis of the creditworthiness of issuers of lower grade securities may be more complex than for issuers of higher-quality debt obligations. To the extent that the Fund holds lower grade and/or unrated securities, the Fund's success in achieving its investment objectives may depend more heavily on Western Asset's credit analysis than if the Fund held exclusively higher-quality and rated securities.

LEVERAGE RISK. The Fund is offering the AMPS in order to purchase additional assets for investment purposes. This practice is known as "leverage." Leverage risk includes the risk associated with the issuance of AMPS to leverage the Fund's common shares. The Fund intends to use other instruments that may be considered leverage under certain circumstances, including reverse repurchase agreements, credit default swaps, dollar rolls and other investment techniques, each of which (to the extent that it is considered leverage) will amplify the effects of leverage on the Fund's portfolio. Counterparties on these instruments may have a claim to the Fund's assets that is prior to the claim of the holders of AMPS.

If the dividend rate on the AMPS and interest rates on other forms of leverage, as reset periodically, exceed the net rate of return on the Fund's portfolio, the use of leverage will result in a lower net asset value than if the Fund were not leveraged, and the Fund's ability to pay dividends and to meet its asset coverage requirements on the AMPS would be reduced.

ISSUER RISK. The value of a corporate debt instrument 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.

SMALLER COMPANY RISK. The general risks associated with corporate debt obligations are particularly pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources, or

10

may depend on a few key employees. As a result, they may be subject to greater levels of credit, interest rate and issuer risk. Securities of smaller companies may trade less frequently and in less volume than more widely held securities, and their values may fluctuate more sharply than other securities. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

COUNTRY RISK. Investments in securities of non-U.S. issuers (including those denominated in U.S. dollars) involve certain risks not typically associated with investments in domestic issuers. For example, the value of those investments may decline in response to unfavorable political and legal developments, unreliable or untimely information, or economic and financial instability. Settlement procedures outside the U.S. may also involve additional risks. The risks described in this paragraph will be greater to the extent the Fund invests in securities of issuers based in developing or "emerging market" countries.

PREPAYMENT RISK. Many fixed income securities, especially those issued at high interest rates, provide that the issuer may repay them early. Issuers often exercise this right when interest rates decline. Accordingly, holders of securities that may be called or prepaid may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, the Fund reinvests the proceeds of the payoff at current yields, which are lower than those paid by the security that was paid off.

REINVESTMENT RISK. Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund reinvests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio's current earnings rate.

DERIVATIVES RISK. The Fund may invest in a variety of derivative instruments for investment or risk management purposes, such as options, futures contracts and swaps. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as interest rate risk, leverage risk and management risk. The Fund will be subject to credit risk with respect to the counterparties to the derivatives contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivatives contract, the Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. Derivative transactions also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation 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 the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial or that these transactions will be successful.

INFLATION/DEFLATION RISK. Inflation risk is the risk that the Fund's assets or income from the Fund's investments may be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the AMPS and distributions could decline. Inflation risk is expected to be greater with respect to the Fund's investments in securities or instruments other than U.S. TIPS. Deflation risk is the risk that prices throughout the economy may decline over time--the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio. Because the principal amounts of U.S. TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in such securities.

TURNOVER RISK. The length of time the Fund has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Fund is known as "portfolio turnover." As a result of the Fund's investment policies, under certain market conditions the Fund's turnover rate may be higher than that of other investment companies. Portfolio turnover generally involves some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. These transactions may result in realization of taxable capital gains. Higher portfolio turnover rates, such as those above 100%, are likely to result in higher brokerage commissions or other transaction costs and could give rise to a greater amount of taxable capital gains.

MANAGEMENT RISK. The Fund is subject to management risk because it is an actively managed investment portfolio. Western Asset will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

ANTI-TAKEOVER PROVISIONS. The Fund's Agreement and Declaration of Trust (as amended and restated, the "Declaration") includes provisions that could limit the ability of other entities or persons to acquire control of the Fund, convert the Fund to open-end status or change the composition of the Board of Trustees.

MARKET DISRUPTION AND GEOPOLITICAL RISKS. The war with Iraq, its aftermath and the continuing occupation of the country by coalition forces are likely to have a substantial impact on the U.S. and world economies and securities markets. The duration and nature of the war and occupation and the potential costs of rebuilding the Iraqi infrastructure and political systems cannot be predicted with any certainty.

Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period, and the occurrence of similar events cannot be

ruled out. 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 U.S. and world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the AMPS.

CERTAIN AFFILIATIONS. Certain broker-dealers may be considered to be affiliated persons of the Fund and/or Western Asset. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker or to utilize affiliated brokers for agency transactions is subject to regulatory and other restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

TRADING MARKET.......... The AMPS will not be listed on a stock exchange. Instead, you may buy or sell AMPS at a periodic auction by submitting orders to a broker-dealer that has entered into a separate agreement with the auction agent (a "Broker-Dealer") or to a broker-dealer that has entered into an agreement with a Broker-Dealer. In addition to the auctions, Broker-Dealers and other broker-dealers may maintain a separate secondary trading market in AMPS, but may discontinue this activity at any time. You may transfer shares outside of auctions only to or through a Broker-Dealer, a broker-dealer that has entered into a separate agreement with a Broker-Dealer, or other persons as the Fund permits. There can be no assurance that a secondary trading market for the AMPS will develop, or if it does develop, that it will provide holders of AMPS with liquidity of investment. See "The Auction."

RATINGS................ The Fund will issue the AMPS only if the AMPS have received a credit quality rating of "Aaa" from Moody's and of "AAA" from Fitch.

DIVIDENDS ON AMPS....... The table below shows the dividend rates, the dates of accumulation at such rates, the dividend payment dates and the number of days for the initial rate periods on each series of AMPS offered in this prospectus, as well as the subsequent dividend payment date for each series. For subsequent dividend periods, AMPS will pay dividends based on a rate set at auctions normally held every seven days. In most instances, dividends are payable on the first business day following the end of the rate period. The rate set at auction will not exceed the maximum applicable rate. See "Description of AMPS--Dividends and Rate Periods."

Dividends on AMPS will be cumulative from the date the shares are first issued and will be paid out of legally available funds.

AMPS	INITIAL DIVIDEND RATE	DATE OF ACCUMULATION AT INITIAL RATE	DIVIDEND PAYMENT DATE FOR INITIAL RATE PERIOD

Series M.....................	%
Series T.....................	%
Series W.....................	%
Series TH....................	%
Series F.....................	%

Notwithstanding the schedule above, the Fund may, subject to certain conditions, designate special rate periods of more than seven days. The Fund may not designate a special rate period unless sufficient clearing bids were made in the most recent auction. In addition, full cumulative dividends and any amounts due with respect to mandatory redemptions or optional redemptions must be paid in full or deposited with the auction agent. The Fund also must have received confirmation from Moody's and Fitch or any substitute rating agency that the proposed special rate period will not adversely affect such agency's then-current rating on the AMPS. The Fund may establish one or more dividend payment dates in respect of a special rate period. The dividend payment date or dates for a special rate period will be set out in the notice designating the special rate period.

The Fund currently expects to declare a special rate period under circumstances in which it has the opportunity to secure an advantageous dividend rate on the AMPS, although it may choose not to do so. These circumstances could include, among others, (i) if Western Asset believes that interest rates will rise more than market expectations over a particular period or (ii) if long-term interest and dividend rates are lower than short-term interest and dividend rates for a particular period. Depending on market conditions, the Fund intends to declare a special rate period with respect to Series M AMPS, Series W AMPS and Series F AMPS shortly after the issuance of the AMPS.

DETERMINATION OF MAXIMUM APPLICABLE RATE....... The applicable dividend rate for any rate period for a series of AMPS will not exceed the maximum applicable rate (calculated as described below) attributable to such shares. The maximum applicable rate for each series of AMPS will depend on the credit rating assigned to such shares and on the duration of the rate period. The maximum applicable rate will be the higher of the applicable percentage of the reference rate or the applicable spread plus the reference rate. The reference rate is the applicable LIBOR Rate (for a rate period of fewer than 365 days) or the applicable Treasury Rate Index (for a rate period of 365 days or more). The applicable percentage or applicable spread as so determined is further subject to upward but not downward adjustment in the discretion of the Board of Trustees after consultation with the Broker-Dealers, provided that any such adjustment does not impair the rating of the AMPS and that immediately following any such adjustment the Fund could meet the Preferred Shares Basic Maintenance Amount test (as described in "Description of AMPS--Rating Agency Guidelines and Asset Coverage"). The applicable percentage and spread is as follows:

MOODY'S CREDIT RATING	FITCH'S CREDIT RATING	APPLICABLE PERCENTAGE	APPLICABLE
Aaa	AAA	125%	125 bps
Aa3 to Aa1	AA- to AA+	150%	150 bps
A3 to A1	A- to A+	200%	200 bps
Baa3 to Baa1	BBB- to BBB+	250%	250 bps
Below Baa3	Below BBB-	300%	300 bps

There is no minimum applicable rate in respect of any rate period. See "Description of AMPS--Dividends and Rate Periods."

LIQUIDATION PREFERENCE............ The liquidation preference (that is, the amount the Fund must pay to holders of AMPS if the Fund is liquidated) for AMPS will be $25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declared.

ASSET MAINTENANCE....... Under revised Article Twelve set forth in the Fund's Second Amended and Restated Bylaws (the "Second Amended and Restated Bylaws"), attached as Appendix C to the Statement of Additional Information, which establishes and fixes the rights and preferences of each series of AMPS, the Fund must maintain:

- asset coverage on the AMPS as required by the rating agency or agencies rating the AMPS; and

- asset coverage of at least 200% with respect to senior securities that are stock, including the AMPS, as discussed in "Description of AMPS--Rating Agency Guidelines and Asset Coverage."

In the event that the Fund does not maintain (or cure a failure to maintain) these coverage tests, some or all of the AMPS will be subject to mandatory redemption. See "Description of AMPS--Redemption."

Based on the composition of the Fund's portfolio as of November 20, 2003, the Fund estimates that the asset coverage of the AMPS, as measured pursuant to the

Investment Company Act of 1940 and the rules and regulations thereunder, as amended (the "1940 Act"), would be approximately 300.51% if the Fund were to issue all of the AMPS offered in this prospectus, representing approximately 33% of the Fund's total managed assets. This asset coverage will change from time to time.

MANDATORY REDEMPTION.... If the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage (each as defined in the Second Amended and Restated Bylaws and discussed in "Description of

AMPS--Rating Agency Guidelines and Asset Coverage") is not maintained or restored in a timely manner, the AMPS will be subject to mandatory redemption, out of funds legally available, at the redemption price of $25,000 per share plus an amount equal to dividends thereon (whether or not earned or declared) accumulated but unpaid to (but not including) the date fixed for redemption. Any such redemption will be limited to the minimum number of AMPS necessary to restore the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage, as the case may be. The Fund's ability to make such a mandatory redemption may be restricted by the provisions of the 1940 Act. See "Description of AMPS--Redemption."

OPTIONAL REDEMPTION..... The AMPS are redeemable at the option of the Fund, in whole or in part, on any dividend payment date at the redemption price of $25,000 per share, plus an amount equal to the accumulated but unpaid dividends (whether or not earned or declared) to (but not including) the date fixed for redemption. See "Description of AMPS--Redemption."

Although the AMPS are subject to redemption under certain circumstances as described above and under "Description of AMPS--Redemption," the AMPS may not be redeemed at a shareholder's option at net asset value, unlike the shares of an open-end mutual fund.

VOTING RIGHTS........... The 1940 Act requires that the holders of any outstanding series of AMPS and any other outstanding preferred shares, voting together as a single class separate from the Common Shareholders, have the right to elect at least two Trustees of the Fund at all times and to elect a majority of the Trustees if two years' dividends on any outstanding series of the AMPS or any other preferred shares are unpaid until all unpaid dividends on all series of the AMPS and any other preferred shares are paid (or otherwise provided for). The holders of AMPS and any other outstanding preferred shares will vote as a separate class (and, in certain circumstances, the holders of each series of AMPS will vote as a separate class) on certain other matters as required under the Declaration, the Fund's Bylaws, as amended (the "Bylaws"), or the 1940 Act. See "Description of AMPS--Voting Rights." Each common share, each of the AMPS, and each share of any other series of preferred shares of the Fund is entitled to one vote per share.

FEDERAL INCOME TAXATION............. The distributions with respect to any series of AMPS (other than distributions in redemption of AMPS subject to Section 302(b) of the Code) will constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders. For taxable years beginning on or before December 31, 2008, provided holding period and other requirements are met, the Fund may designate distributions of investment income derived from dividends of U.S. corporations and some foreign corporations as "qualified dividend income." Qualified

16

dividend income will be taxed in the hands of individuals at the rates applicable to long-term capital gain, provided these same holding period and other requirements are met by the shareholder. The Fund does not expect a significant portion of Fund distributions to be derived from qualified dividend income. Distributions of net capital gains (i.e., the excess of net long-term capital gains over net short-term capital losses) that are designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders receiving such distributions. The Internal Revenue Service (the "IRS") currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate capital gain dividends between and among its common shares and each series of the AMPS in proportion to the total dividends paid to each class during or with respect to such year. Ordinary income dividends and dividends qualifying for the dividends received deduction will similarly be allocated between and among classes. See "Tax Matters."

CUSTODIAN, AUCTION AGENT, TRANSFER AGENT, REGISTRAR, DIVIDEND PAYING AGENT AND REDEMPTION AGENT...... State Street Bank & Trust Company serves as the Fund's custodian. Deutsche Bank Trust Company Americas serves as auction agent, transfer agent, registrar, dividend paying agent and redemption agent for the AMPS.

FINANCIAL HIGHLIGHTS (UNAUDITED)

The financial highlights table set forth below is intended to help you understand the Fund's recent financial performance. Information contained in the table below under the headings "Per Share Operating Performance" and "Ratios/Supplemental Data" shows the unaudited operating performance of the Fund from the commencement of the Fund's investment operations on September 30, 2003 through November 20, 2003. Because the Fund is recently organized and commenced investment operations on September 30, 2003, the table covers fewer than eight weeks of operations, during which a substantial portion of the Fund's portfolio was held in temporary investments pending investment in bonds and other investments that meet the Fund's investment objectives and policies. Accordingly, the information presented may not provide a meaningful picture of the Fund's operating performance.

	FOR THE PERIOD FROM SEPTEMBER 30, 2003* THROUGH NOVEMBER 20, 2003 (UNAUDITED)
PER COMMON SHARE OPERATING PERFORMANCE	
Net Asset Value, Beginning of Period	$ 14.33(1)
Less Offering Costs Charged to Additional Paid in Capital	$ (0.03)
Income From Investment Operations:	
Net Investment Income	$ 0.13
Net Realized and Unrealized Gain/(Loss) on Investments	$ 0.08
Total from Investment Operations	$ 0.21
Less Dividends and Distributions to Shareholders from:	
Net Investment Income	$ 0.00
Net Realized Gain on Investments	$ 0.00
Return of Capital	$ 0.00
Total Dividends and Distributions to Shareholders	$ 0.00
Net Increase/(Decrease) in Net Assets	$ 0.21
Net Asset Value, End of Period(2)	$ 14.51
Per Share Market Value, End of Period(2)	$ 15.35
Total Return on NAV Excluding Offering Costs	1.26%(3)
Total Investment Return on Market Value	2.33%(4)
RATIOS/SUPPLEMENTAL DATA:	
Net Assets, End of Period (in thousands)	$418,361
Ratio of Expenses to Average Weekly Net Assets (including interest expense)(5)	1.34%(6)
Ratio of Net Investment Income to Average Daily Net Assets	6.73%(6)
Portfolio Turnover Rate	98.00%(6)

----

* Date of commencement of operations
(1) Net sales load of $0.68 on initial shares issued.
(2) Net asset value and market value are published in THE WALL STREET JOURNAL each Monday.
(3) Not annualized. Total return on NAV including offerings costs is 1.47%.
(4) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of period. Total investment return is not annualized. Brokerage commissions are not reflected.
(5) As a percentage of weekly net assets, which includes any liabilities or senior securities constituting indebtedness in connection with financial leverage.
(6) Annualized.

18

THE FUND

The Fund is a recently organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on July 14, 2003, pursuant to the Declaration, which is governed by the laws of The Commonwealth of Massachusetts. The Fund's principal office is located at 117 East Colorado Boulevard, Pasadena, California 91105, and its telephone number is (626) 844-9400.

The Fund commenced operations on September 30, 2003, upon the closing of an initial public offering of 25,250,000 of its common shares. The proceeds of such offering were approximately $360,948,750 after the payment of organizational and offering expenses. In connection with the initial public offering of the Fund's common shares, the underwriters for the common shares were granted an option to purchase up to an additional 3,787,500 common shares to cover over-allotments. On October 27, 2003, and November 12, 2003, such underwriters purchased, in each case at a price of $14.325 per common share, an additional 1,750,000 and 1,825,000 common shares of the Fund, respectively, pursuant to the over-allotment option. The Fund's common shares are traded on the New York Stock Exchange under the symbol "WIA."

USE OF PROCEEDS

The net proceeds of the offering of AMPS will be approximately $202,645,415 after payment of the sales load and estimated offering costs (not expected to exceed $304,585). The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objectives and policies as stated below. It is presently anticipated that the Fund will use the net proceeds of the offering to purchase U.S. TIPS and other investments that meet its investment objectives and policies and/or to repay certain currently outstanding reverse repurchase agreements or other leverage. Pending such use, it is anticipated that the proceeds will be invested in short-term investment grade securities.

19

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of November 20, 2003, and as adjusted to give effect to the issuance of the AMPS offered hereby (including estimated offering expenses and sales load of $2,354,585).

	ACTUAL	AS ADJUSTED
Series M AMPS, no par value (no shares issued; 1,640 shares issued, as adjusted, at $25,000 per share liquidation preference)..............	$ 0	$ 41,000,000
Series T AMPS, no par value (no shares issued; 1,640 shares issued, as adjusted, at $25,000 per share liquidation preference)..............	$ 0	$ 41,000,000
Series W AMPS, no par value (no shares issued; 1,640 shares issued, as adjusted, at $25,000 per share liquidation preference)..............	$ 0	$ 41,000,000
Series TH AMPS, no par value (no shares issued; 1,640 shares issued, as adjusted, at $25,000 per share liquidation preference)..............	$ 0	$ 41,000,000
Series F AMPS, no par value (no shares issued; 1,640 shares issued, as adjusted, at $25,000 per share liquidation preference)..............	$ 0	$ 41,000,000
Total AMPS............................	$ 0	$205,000,000
Common shares, no par value, unlimited shares authorized, 28,831,981 shares issued and outstanding................	$412,257,166	$409,902,581
Undistributed net investment income.....	$ 3,621,198	$ 3,621,198
Accumulated net realized gain/(loss) on investment transactions..........	$ 771,593	$ 771,593
Net unrealized appreciation/(depreciation) on investments........................	$ 1,711,325	$ 1,711,325
Net assets applicable to Common Shares.............................	$418,361,282	$416,006,697

PORTFOLIO COMPOSITION

The following table sets forth certain information with respect to the composition of the Fund's investment portfolio as of November 20, 2003, based on the highest rating assigned each investment.

CREDIT RATING	VALUE	PERCENT
Aaa/AAA................................	$527,307,141	85.49%
Aa/AA..................................	15,875,284	2.57
A/A....................................	0	0
Baa/BBB................................	73,617,681	11.94
Ba/BB..................................	0	0
B/B....................................	0	0
Caa/CCC................................	0	0

Unrated+	0	0
Total	$616,800,106	100.0%

\+ Refers to securities that have not been rated by Moody's, S&P, Fitch or another nationally recognized rating agency. See "The Fund's Objectives, Strategies and Investments--Portfolio Contents and Management Strategies." U.S. TIPS are unrated, but are backed by the full faith and credit of the United States and are therefore considered by Western Asset to be comparable to bonds rated Aaa/AAA.

20

THE FUND'S OBJECTIVES, STRATEGIES AND INVESTMENTS

INVESTMENT OBJECTIVES

The Fund's primary investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary investment objective. No assurance can be given that the Fund will achieve its investment objectives.

PORTFOLIO CONTENTS AND MANAGEMENT STRATEGIES

GENERAL. Under normal market conditions, the Fund will invest at least 80% of its total managed assets in U.S. TIPS. U.S. TIPS are fixed income securities issued by the U.S. Department of the Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation (currently represented by the non-seasonally adjusted CPI-U, calculated with a three-month lag). The Fund may invest up to 20% of its total managed assets in corporate bonds or other securities and instruments. The Fund will invest primarily in bonds that, in the opinion of Western Asset, provide current income and, when consistent with current income, may have the potential for capital appreciation. When consistent with the Fund's investment objectives, Western Asset may, but is not required to, use a variety of derivative instruments for risk management purposes or as part of its investment strategies. See "--Investments--Derivatives" below.

The Fund anticipates that, immediately after completion of the offering of AMPS, the AMPS will represent approximately 33% of the Fund's total managed assets. The Fund entered into reverse repurchase agreements and/or dollar roll transactions for leveraging purposes as a substitute for all or a portion of the AMPS offered hereunder during the period prior to their issuance and will continue to enter into such transactions following the issuance of the AMPS to the extent determined by Western Asset. The precise amount of leverage used by the Fund may vary from time to time, but the AMPS, together with other forms of leverage (including reverse repurchase agreements and dollar roll transactions), will not exceed 38% of its total managed assets. The Fund also currently expects to use short sales, futures contracts, options, credit default swaps and other investment techniques that may in certain circumstances be considered leverage. The Fund may (but is not required to) cover its commitments under these transactions by the segregation of liquid assets or by entering into offsetting transactions or owning positions covering its obligations. To the extent these transactions are so covered, investment in these transactions will not be considered leverage for purposes of the Fund's policy on the amount of leverage it may incur. However, such transactions, even if so covered, represent a form of economic leverage (although they will not be considered "leverage" for purposes of calculating total managed assets), and thus entail special risks.

See "Risks--General Risks of Investing in the Fund--Leverage Risk." While the Fund does not currently anticipate borrowing funds from banks or other financial institutions in order to leverage its portfolio, it may do so in the future.

Upon Western Asset's recommendation, during temporary defensive periods (including the period during which the net proceeds of this offering are being invested) and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its total managed assets in short-term investments, including, but not limited to, U.S. government securities, certificates of deposit, bankers' acceptances, commercial paper and repurchase agreements. Such periods will not be considered "normal market conditions" for purposes of the 80% test described above. The Fund may not achieve its investment objectives under these circumstances.

The Fund may borrow money in an amount up to 5% of its total assets as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of

securities transactions that otherwise might require untimely dispositions of Fund securities. Such borrowings are not considered leverage for purposes of the Fund's policy on the amount of leverage it may incur.

The Fund cannot change its investment objectives without the approval of the holders of a "majority of the outstanding" common shares and preferred shares (including the AMPS), voting together as a single class. In addition, the holders of a "majority of the outstanding" preferred shares (including the AMPS) voting separately as a class would have to approve any change in the Fund's investment objectives. Under the 1940 Act, a "majority of the outstanding" shares (whether voting together as a single class or voting as a separate class) means (1) 67% or more of the outstanding shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (2) more than 50% of the outstanding shares, whichever is less. See "Description of AMPS--Voting Rights" for additional information with respect to the voting rights of holders of AMPS.

So long as and to the extent it is required by applicable law, the Fund will not change its policy to invest, under normal market conditions, at least 80% of its total managed assets in U.S. TIPS unless it provides shareholders with at least 60 days' written notice of such change.

CREDIT QUALITY. The Fund will not invest in bonds that are below investment grade quality at the time of purchase. Investment grade quality bonds are bonds rated within a rating agency's four highest grades (Baa or BBB or higher by Moody's, S&P or Fitch or a similar rating of another nationally recognized rating agency) or bonds that are unrated but judged to be of comparable quality by Western Asset. If a bond is rated differently by two or more nationally recognized rating agencies, Western Asset may rely on the higher rating if it believes that rating to be more accurate. The Fund expects that the initial dollar-weighted credit quality of its bond portfolio will be AA, and that, under normal market conditions, substantially all of the Fund's assets will be of investment grade quality. However, the portfolio's credit quality will vary from time to time. Changes in economic conditions or other circumstances are more likely to lead to a weakened capacity for bonds that are graded Baa or BBB (or that are of comparable quality) to make principal and interest payments than is the case for higher quality bonds. Although the Fund will not invest in bonds that are below investment grade quality at the time of purchase, the Fund is not required to dispose of a security if a rating agency or Western Asset downgrades its assessment of the credit characteristics of a particular issue. As a result, the Fund may from time to time hold bonds of below investment grade quality. As described under "Risks--General Risks of Investing in the Fund--Lower Grade and

Unrated Securities Risk," bonds of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal and are commonly referred to as "junk bonds." The Fund may purchase unrated securities (which are not rated by a rating agency) if Western Asset determines that the securities are of a quality comparable to rated securities that the Fund may purchase.

The Fund's credit quality policies depend in part on credit ratings developed by rating agencies such as Moody's, S&P and Fitch. Rating agencies 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. 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. The ratings of a debt security may change over time. Rating agencies monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, rated debt instruments held by the Fund could receive a higher rating (which would tend to increase their value) or a lower rating (which would tend to decrease their value) during the period in which they are held. See "Risks--General Risks of Investing in the Fund--Lower Grade and Unrated Securities Risk."

The credit quality policies described in this prospectus and the Statement of Additional Information apply only at the time a security is purchased, and, as noted above, the Fund is not required to dispose of a security if a rating agency or Western Asset downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, Western Asset may consider such factors as its assessment of the credit quality of the issuer of the security, the price at which the security could be sold, and the rating, if any, assigned to the security by other rating agencies. For purposes of the Fund's credit quality policies, the Fund will consider a bond that has been assigned any rating by a rating agency within the category Baa/BBB to be rated Baa/BBB grade by such rating agency (e.g., a bond rated BBB- will be considered to be a bond graded BBB). Appendix A to the Statement of Additional Information contains a general description of Moody's, S&P's and Fitch's ratings of debt securities.

DURATION. As part of the management of the Fund, Western Asset will manage the effective duration of the Fund's portfolio. The Fund currently expects that the average effective duration of its portfolio will range between zero and 15 years, although this target duration may change from time to time. Effective duration measures the expected sensitivity of market price to changes in interest rates, taking into account the effects of structural complexities. Each year of duration represents an expected 1% change in the price of a bond for every 1% change in interest rates. For example, if a bond has a duration of four years, its price will fall about 4% when interest rates rise by 1%. Conversely, the bond's price will rise about 4% when interest rates fall by 1%.

INVESTMENTS

U.S. TIPS. Under normal market conditions, the Fund will invest at least 80% of its total managed assets in U.S. TIPS. U.S. TIPS are fixed income securities issued by the U.S. Department of the Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation (currently represented by the non-seasonally adjusted CPI-U, calculated with a three-month lag).

The U.S. Treasury currently issues U.S. TIPS in only ten-year maturities, although it is possible that U.S. TIPS with other maturities will be issued in the future. U.S. TIPS have previously been issued with maturities of five, ten or thirty years. U.S. TIPS pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount. The interest rate on these bonds is fixed at issuance, but over the life of the bond, this interest may be paid on an increasing or decreasing principal value that has been adjusted for inflation. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed even during a period of deflation. However, because the principal amount of U.S. TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in these securities. In addition, the current market value of the bonds is not guaranteed, and will fluctuate. If the Fund purchases U.S. TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, the Fund may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period the Fund holds a U.S. TIPS, the Fund may earn less on the security than on a conventional bond.

Investing in U.S. TIPS involves certain risks. See "Risks--General Risks of Investing in the Fund--Risks Relating to U.S. TIPS." The Fund may invest in inflation-protected securities with other structures or characteristics as such securities become available in the market. It is currently expected that other types of inflation-protected securities would have characteristics similar to those described above.

U.S. GOVERNMENT SECURITIES. The Fund intends to invest primarily in U.S. TIPS, which are a type of U.S. government security, and may also invest in other types of U.S. government securities. U.S.

23

government securities are obligations of, or guaranteed by, the U.S. government, its agencies or government-sponsored enterprises. U.S. government securities include a variety of securities that differ in their interest rates, maturities and dates of issue. Securities issued or guaranteed by agencies or instrumentalities of the U.S. government may or may not be supported by the full faith and credit of the United States or by the right of the issuer to borrow from the U.S. Treasury. U.S. government securities are subject to interest rate risk, and, in some cases, may be subject to credit risk.

CORPORATE BONDS. The Fund may invest in corporate bonds. The investment return of corporate bonds reflects interest on the security and changes in the market value of the security. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates, and may also be affected by the credit rating of the corporation, the corporation's performance, perceptions of the corporation in the marketplace and general market liquidity. The value of the intermediate- and longer-term corporate bonds in which the Fund generally will invest normally fluctuates more in response to changes in interest rates than does the value of shorter-term corporate bonds. There is a risk that the issuers of corporate bonds may not be able to meet their obligations on interest or principal payments at the time called for by a bond.

REVERSE REPURCHASE AGREEMENTS AND DOLLAR ROLL TRANSACTIONS. A reverse repurchase agreement is a portfolio management technique in which the Fund temporarily transfers possession of a portfolio instrument to another person, such as a financial institution or broker-dealer, in return for cash, which the Fund then uses to purchase additional investments. At the same time, the Fund agrees to repurchase the instrument at an agreed upon time (normally within seven days) and price, including an interest payment. While engaging in reverse repurchase agreements, the Fund may maintain cash or securities in a segregated account or may otherwise enter into positions that would cover such obligations. To the extent assets are segregated or the Fund's obligation is otherwise "covered," these instruments will not be considered leverage for purposes of the 1940 Act, and thus will not be subject to the 300% asset coverage test described under "Description of Capital Structure." However, the Fund considers such instruments to be leverage for purposes of its policy on the amount of leverage it may incur. The Fund has engaged in reverse repurchase agreements and dollar roll transactions during the period prior to the issuance of the AMPS, as a substitute form of leverage for all or a portion of the AMPS, and intends to continue to do so following the issuance of AMPS to the extent described under "--Portfolio Contents and Management Strategies--General" above. Reverse repurchase agreements may expose the Fund to greater fluctuations in the value of its assets and render the segregated assets unavailable for sale or other disposition.

The Fund may also enter into dollar roll transactions in which the Fund sells a fixed income security for delivery in the current month and simultaneously contracts to purchase substantially similar (same type, coupon and maturity) securities at an agreed upon future time. By engaging in a dollar roll transaction the Fund forgoes principal and interest paid on the security that is sold, but receives the difference between the current sales price and the forward price for the future purchase. The Fund would also be able to earn interest on the income that is received from the initial sale.

The obligation to purchase securities on a specified future date involves the risk that the market value of the securities that the Fund is obligated to purchase may decline below the purchase price. In addition, in the event the other party to the transaction files for bankruptcy, becomes insolvent or defaults on its obligation, the Fund may be adversely affected. In addition, the interest costs associated with reverse repurchase agreements and dollar roll transactions will reduce the Fund's net asset value and could, in some circumstances, leave the Fund worse off than if it had not used such instruments. For purposes of calculating the Fund's total managed assets, any liability associated with reverse repurchase agreements or dollar roll transactions will not be taken into account.

SHORT SALES. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. The Fund may use short sales for investment and risk management purposes. When the Fund engages in a short sale, it must borrow the security sold short and deliver it to the counterparty. The Fund may have to pay a fee to borrow particular securities and would often be obligated to pay over any payments received on such borrowed securities. The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the lender, which is usually a broker-dealer, and/or with the Fund's custodian. The Fund may not receive any payments (including interest) on its collateral. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. Although it does not currently expect to do so under normal market conditions, the Fund may engage in so-called "naked" short sales where it does not own or have the immediate right to acquire the security sold short at no additional cost, in which case the Fund's losses could be unlimited.

CREDIT DEFAULT SWAPS. The Fund may enter into credit default swap contracts for investment purposes and to leverage its portfolio. As the seller in a credit default swap contract, the Fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as a corporate issuer, on the debt obligation. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default had occurred. These payments are based on the difference between an interest rate applicable to the relevant issuer and a benchmark interest rate for a given maturity. If no default occurred, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total managed assets, the Fund would be subject to investment exposure on the notional amount of the swap.

For hedging purposes, the Fund may also purchase credit default swaps, in which case it would make periodic payments to the counterparty in exchange for the right to receive the notional value of the underlying debt obligation in the event of a default. The Fund may (but is not required to) cover any accrued but unpaid net amounts owed to a swap counterparty through the segregation of liquid assets. To the extent assets are segregated, these transactions will not be considered leverage for purposes of the Fund's policy on the amount of leverage it may incur.

LOANS OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities in order to earn income. The Fund will receive collateral in cash or high quality securities at least equal to the current value of the loaned securities. The Fund earns interest on the securities it lends and income when it invests the collateral for the loaned securities. These loans will be limited to 33 1/3% of the value of the Fund's total assets.

DERIVATIVES. The Fund may, but is not required to, use a variety of derivative instruments for risk management purposes or as part of its investment strategies. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and often may relate to individual debt instruments, interest rates, commodities and related indexes. Examples of derivative instruments that the Fund may use include options contracts, futures contracts, options on futures contracts, warrants and swaps. The Fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. See "Risks--General Risks of Investing in the Fund--Derivatives Risk."

WHEN-ISSUED, DELAYED DELIVERY AND FORWARD COMMITMENT TRANSACTIONS. The Fund may buy and sell bonds on a when-issued, delayed delivery or forward commitment basis, with settlement occurring at a later date, normally within 45 days of the trade date. These transactions involve risk because no interest

25

accrues on the bonds prior to settlement and because the value of the bonds at time of delivery may be less (or more, in the case of a sale by the Fund) than cost (or the agreed upon price). When such transactions are outstanding, the Fund may segregate until the settlement date assets determined to be liquid by Western Asset in an amount sufficient to meet its obligations. To the extent assets are segregated, these transactions will not be considered leverage for purposes of the Fund's policy on the amount of leverage it may incur.

PREFERRED STOCK. The Fund may invest in preferred stock. Preferred stock pays dividends at a specified rate and has preference over common stock in the payment of dividends and the liquidation of an issuer's assets but is junior to the debt securities of the issuer in those same respects. The market prices of preferred stocks are subject to changes in interest rates and are more sensitive to changes in an issuer's creditworthiness than are the prices of debt securities. Holders of preferred stock may also suffer a loss of value if dividends are not paid. Under ordinary circumstances, preferred stock does not carry voting rights.

STRUCTURED NOTES AND RELATED INSTRUMENTS. The Fund may invest in "structured" notes and other related instruments, which are privately negotiated debt obligations the principal and/or interest of which is determined by reference to the performance of a benchmark asset or market (an "embedded index"), such as selected securities or an index of securities, or the differential performance of two assets or markets, such as indices reflecting bonds. Structured instruments may be issued by corporations and 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. Western Asset may utilize structured instruments for investment purposes and also for risk management purposes, such as to reduce the duration and interest rate sensitivity of the Fund's portfolio.

While structured instruments may offer the potential for a favorable rate of return from time to time, they also entail certain risks. Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. In some cases, depending on the terms of the embedded index, a structured instrument may provide that the principal and/or interest payments may be adjusted below zero. Structured investments may also involve significant credit risk and risk of default by the counterparty. Although structured instruments are not necessarily illiquid, Western Asset believes that most structured instruments are illiquid. Like other sophisticated strategies, the Fund's use of structured instruments may not work as intended. If the value of the embedded index changes in a manner other than that expected by Western Asset, principal and/or interest payments received on the structured instrument may be substantially less than expected. In addition, if Western Asset uses structured instruments to reduce the duration of the Fund's portfolio, this may limit the Fund's return when having a longer duration would be beneficial (for instance, when interest rates decline).

OTHER INVESTMENT COMPANIES. The Fund may invest in securities of other closed-end or open-end investment companies that invest primarily in bonds or other securities and instruments of the types in which the Fund may invest directly. The Fund may invest in other investment companies during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of the AMPS, during periods when there is a shortage of attractive bonds available in the market, or when Western Asset believes share prices of other investment companies offer attractive values. The Fund may invest in investment companies that are advised by Western Asset or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the

26

Securities and Exchange Commission. As a stockholder in an investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's management fees and other expenses with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. Western Asset will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available bond investments. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled "Risks--General Risks of Investing in the Fund--Leverage Risk," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. Other investment companies may have investment policies that differ from those of the Fund. In addition, to the extent the Fund invests in other investment companies, the Fund will be dependent upon the investment and research abilities of persons other than Western Asset. For purposes of the Fund's investment policies, an investment in such investment companies will be (1) treated as an investment in U.S. TIPS (to the extent the underlying investment company invests under normal market conditions at least 80% of its total assets in U.S. TIPS) and (2) assigned a credit rating deemed appropriate by Western Asset.

NEW SECURITIES AND OTHER INVESTMENT TECHNIQUES. New types of securities and other investment and hedging practices are developed from time to time. Western Asset expects, consistent with the Fund's investment objectives and policies, to invest in such new types of securities and to engage in such new types of investment practices if Western Asset believes that these investments and investment techniques may assist the Fund in achieving its investment objectives. In addition, Western Asset may use investment techniques and instruments that are not specifically described herein.

RISKS

RISKS OF INVESTING IN THE AMPS

INTEREST RATE RISK. The AMPS pay dividends based on shorter-term interest rates. The Fund invests assets attributable to the AMPS principally in intermediate- and longer-term bonds, the interest rates on which are typically, although not always, higher than shorter-term interest rates. Both shorter-term and intermediate- to longer-term interest rates may fluctuate. If shorter-term interest rates rise, dividend rates on the AMPS may rise so that the amount of dividends to be paid to holders of AMPS exceeds the income from the intermediate-and longer-term bonds and other investments purchased by the Fund with assets attributable to the AMPS. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with assets attributable to the AMPS) is available to pay dividends on the AMPS, however, dividend rates on the AMPS would need to exceed the Fund's net portfolio income by a wide margin before the Fund's ability to pay dividends on the AMPS would be jeopardized. If intermediate- to longer-term interest rates rise, this could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the AMPS.

AUCTION RISK. You may not be able to sell your AMPS at an auction if the auction fails, i.e., if there are more AMPS offered for sale than there are buyers for those shares. Also, if you place a bid order (an order to retain AMPS) at an auction only at a specified rate, and that rate exceeds the rate set at the auction, your order will be deemed an irrevocable offer to sell your AMPS, and you will not retain your AMPS. Additionally, if you buy shares or elect to retain AMPS without specifying a rate below which you would not wish to buy or continue to hold those shares, and the auction sets a below-market rate, you may receive a lower rate of return on your shares than the market rate for similar investments. Finally, the dividend period and rate period for the AMPS may be changed by the Fund, subject to certain conditions and with notice to the holders of the AMPS, which could also affect the liquidity of your investment. See "Description of AMPS" and "The Auction."

SECONDARY MARKET RISK. If you try to sell your AMPS between auctions, you may not be able to sell any or all of your shares, or you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated dividends. Changes in interest rates could affect the price you would receive if you sold your shares in the secondary market, particularly if the Fund has designated a special rate period (a rate period of more than seven days). Broker-dealers that maintain a secondary trading market (if any) for the AMPS are not required to maintain this market, and the Fund is not required to redeem shares if either an auction or an attempted secondary market sale fails because of a lack of buyers. The AMPS are not registered on a stock exchange or the National Association of

Securities Dealers Automated Quotations, Inc. ("NASDAQ") stock market. If you sell your AMPS to a broker-dealer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction or during a special rate period.

RATINGS AND ASSET COVERAGE RISK. While it is a condition to the closing of the offering that Moody's assigns a rating of "Aaa" and Fitch assigns a rating of "AAA" to the AMPS, these ratings do not eliminate or necessarily mitigate the risks of investing in AMPS. In addition, Moody's, Fitch or another rating agency then rating the AMPS could downgrade the AMPS, which may make your shares less liquid at an auction or in the secondary market. If a rating agency downgrades the AMPS, the Fund may (but is not required to) alter its portfolio in an effort to improve the rating, although there is no assurance that it will be able to do so to the extent necessary to restore the prior rating. See "--General Risks of Investing in the Fund--Turnover Risk." In addition, the Fund may be forced to redeem your AMPS to meet regulatory or rating agency requirements. The Fund may also voluntarily redeem AMPS under certain circumstances. See "Description of AMPS--Redemption." The asset coverage requirements imposed by a rating agency may limit the Fund's ability to invest in certain securities or utilize certain investment techniques that Western Asset might otherwise consider desirable. See "Description of AMPS--Rating Agency Guidelines and Asset Coverage" for a description of the rating agency guidelines with which the Fund must currently comply.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's common shares and AMPS, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem AMPS to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such redemptions can be effected in time to meet the requirements of the Code. See "Tax Matters."

GENERAL RISKS OF INVESTING IN THE FUND

LIMITED OPERATING HISTORY. The Fund is a recently organized, diversified, closed-end management investment company that has been in operation for less than three months.

INVESTMENT RISK. An investment in the Fund is subject to investment risk, including the possible loss of the entire amount that you invest.

INTEREST RATE RISK. Interest rate risk is the risk that bonds (and the Fund's total managed assets) will change in value because of changes in interest rates. This is true of all bonds, including U.S. TIPS. Generally, bonds will decrease in value when interest rates rise and increase in value when interest rates decline. This means that the net asset value of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the Fund's bond holdings. Because market interest rates are currently near their lowest levels in many years, there is a greater risk that the Fund's portfolio will decline in value. The value of the intermediate- and longer-term bonds in which the Fund generally will invest normally fluctuates more in response to changes in interest rates than does the value of shorter-term bonds. Because the Fund will invest primarily in intermediate-to-longer-term bonds, the Fund's

net asset value will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term bonds. The Fund's use of leverage will increase interest rate risk. See "--Leverage Risk."

The Fund may utilize certain strategies, including swaps, futures contracts, options on futures and options based on U.S. Treasury securities, for the purpose of reducing the interest rate sensitivity of the portfolio, although there is no assurance that it will do so or that such strategies will be successful. See "How the Fund Manages Risk--Hedging and Related Strategies."

RISKS RELATING TO U.S. TIPS. The value of inflation-protected securities such as U.S. TIPS generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of U.S. TIPS. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of U.S. TIPS. Although the principal value of U.S. TIPS declines in periods of deflation, holders at maturity receive no less than the par value of the bond. However, if the Fund purchases U.S. TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, the Fund may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period the Fund holds a U.S. TIPS, the Fund may earn less on the security than on a conventional bond.

Any increase in principal value caused by an increase in the CPI-U (described below) is taxable in the year the increase occurs, even though the Fund will not receive cash representing the increase at that time. As a result, the Fund could be required at times to liquidate other investments, including when it is not advantageous to do so, in order to satisfy its distribution requirements as a regulated investment company under the Code. See "Tax Matters."

If real interest rates rise (i.e., if interest rates rise for reasons other than inflation, for example, due to changes in currency exchange rates), the value of the U.S. TIPS in the Fund's portfolio will decline. Moreover, because the principal amount of U.S. TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in these securities.

The daily adjustment of the principal value of U.S. TIPS is currently tied to the non-seasonally adjusted CPI-U, which the U.S. Bureau of Labor Statistics calculates monthly. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. There can be no assurance that such index will accurately measure the real rate of inflation in the prices of goods and services. In addition, calculation of the CPI-U includes a three-month lag for purposes of determining the principal value of U.S. TIPS which, consequently, could have a negative impact on the value of U.S. TIPS under certain market conditions.

The U.S. Treasury only began issuing inflation-protected securities in 1997, and, as a result, the market for such securities may be less developed or liquid, and more volatile, than certain other securities markets. The U.S. Treasury currently issues U.S. TIPS in only ten-year maturities, although U.S. TIPS with different maturities have been issued in the past and may be issued in the future.

CREDIT RISK. Credit risk is the risk that the Fund could lose money if the issuer of a debt obligation, or the counterparty to a derivatives contract, reverse repurchase agreement, loan of portfolio securities or similar transaction, is unable or unwilling to make timely principal and/or interest payments, or otherwise to honor its obligations. In addition, a bond held by the Fund could decline in price because the issuer of the bond experiences or is perceived to experience a decline in its financial status.

Not all U.S. government securities are backed by the full faith and credit of the United States. Some securities, such as securities issued by Freddie Mac, are backed only by the credit of the issuing agency or instrumentality. Accordingly, credit risk exists with respect to these securities. U.S. TIPS are backed by the full faith and credit of the United States.

LOWER GRADE AND UNRATED SECURITIES RISK. Although the Fund will not invest in bonds that are below investment grade quality at the time of purchase, the Fund is not required to dispose of a security if a rating agency or Western Asset downgrades its assessment of the credit characteristics of a particular issue. As a result, the Fund may from time to time hold bonds of below investment grade quality. Holding lower grade securities involves special risks in addition to the risks associated with investments in investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, lower grade securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. Lower grade securities are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal and are commonly referred to as "junk bonds." These securities may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category may also be considered to possess some speculative characteristics.

The market values of lower grade securities tend to reflect individual developments of the issuer to a greater extent than do higher-quality securities, which tend to react mainly to fluctuations in the general level of interest rates. Certain emerging market governments that issue lower grade securities are among the largest debtors to commercial banks, governments and supra-national organizations such as the World Bank, and may not be able or willing to make principal and/or interest payments as they come due.

Unrated securities may be less liquid than comparable rated securities and involve the risk that Western Asset may not accurately evaluate the security's comparative credit rating. Analysis of the creditworthiness of issuers of lower grade securities may be more complex than for issuers of higher-quality debt obligations. To the extent that the Fund holds lower grade and/or unrated securities, the Fund's success in achieving its investment objectives may depend more heavily on Western Asset's credit analysis than if the Fund held exclusively higher-quality and rated securities.

LEVERAGE RISK. The Fund utilizes leverage on an ongoing basis for investment purposes. Leverage risk includes the risk associated with the issuance of the AMPS. The Fund intends to use other instruments that may be considered leverage under certain circumstances, including reverse repurchase agreements, credit default swaps, dollar rolls and other investment techniques, each of which (to the extent that it is considered leverage) will amplify the effects of leverage on the Fund's portfolio. Counterparties to these instruments may have a claim to the Fund's assets that is prior to the claim of the holders of the AMPS. The Fund may (but is not required to) cover its commitments under these instruments by the segregation of liquid assets, equal in value to the amount of the Fund's commitments, or by entering into offsetting transactions or owning positions covering its obligations. To the extent these instruments are so covered, (1) they will not be considered "senior securities" under the 1940 Act and therefore will not be subject to the 300% asset coverage requirement otherwise applicable to borrowings by the Fund (see "Description of Capital Structure") and (2) investment in these instruments (other than reverse repurchase agreements and dollar roll transactions) will not be considered "leverage" by the Fund for purposes of the Fund's policy on the amount of leverage it may incur. Although the Fund does not currently intend to borrow from banks or other financial institutions or issue commercial paper in order to leverage its portfolio, it may do so in the future. Bank borrowings and outstanding commercial paper, to the extent used, would add additional leverage to the Fund's portfolio.