

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-CSRS

May 20, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

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

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

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

**620 Eighth Avenue, 49<sup>th</sup> Floor, New York, NY 10018**

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

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

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

**Registrant's telephone number, including area code: 1-877-721-1926**

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

**Date of reporting period: March 31, 2016**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

March 31, 2016

WESTERN ASSET

HIGH INCOME

OPPORTUNITY FUND INC. (HIO)

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

**What's inside**

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**Fund objectives**

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

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

**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the semi-annual report of Western Asset High Income Opportunity Fund Inc. for the six-month reporting period ended March 31, 2016. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

**Special shareholder notice**

On November 16, 2015, Western Asset Managed High Income Fund Inc. and Western Asset High Income Opportunity Fund Inc. announced approval by each Fund's Board of Directors of a proposal to merge Western Asset Managed High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc., subject to approval by the stockholders of each Fund. If approved, the merger is anticipated to occur during the third quarter of 2016.

If the proposed merger is approved by the stockholders of both Funds, stockholders of Western Asset Managed High Income Fund Inc. would receive common stock of Western Asset High Income Opportunity Fund Inc., based on each Fund's respective net asset value per share.

In recommending the merger to each Board of Directors, the Funds' investment adviser and subadviser, Legg Mason Partners Fund Advisor, LLC and Western Asset Management Company, respectively, noted, among other things, the identical investment objectives and substantially similar investment policies and strategies of the Funds, and that Western Asset Managed High Income Fund Inc. is smaller than Western Asset High Income Opportunity Fund Inc. and has higher operating expenses as a percentage of net assets. Management and each Board of Directors believe it is in the best interests of stockholders to merge Western Asset Managed High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc. in part because the combined Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from enhanced

II Western Asset High Income Opportunity Fund Inc.

market liquidity. Furthermore, stockholders of Western Asset Managed High Income Fund Inc. would likely benefit from greater asset diversification, lower overall expenses and enhanced market liquidity as part of a larger Fund. Stockholders of Western Asset High Income Opportunity Fund Inc. may benefit from greater asset diversification in addition to a more streamlined high yield product offering, allowing for more focused marketing and shareholder servicing efforts.

Subsequently, and in connection with the merger, the Boards of each Fund approved the adoption of a fundamental investment policy regarding senior securities, subject to stockholder approval. Since inception, each Fund has not issued senior securities and has no intention to do so in the future. As a result, the stockholders of each Fund are being asked to approve a fundamental investment policy pursuant to which each Fund may not issue senior securities, except in accordance with such Fund's policy regarding borrowing money. If the stockholders of each Fund approve the fundamental investment policy, there will be no change in how their Fund is managed. With respect to Western Asset Managed High Income Fund Inc., the approval of the merger is not contingent upon the approval of the fundamental investment policy. However, with respect to Western Asset High Income Opportunity Fund Inc., the approval of the merger is contingent upon the approval of the fundamental investment policy.

In connection with the proposal to merge Western Asset Managed High Income Fund Inc. with and into Western Asset High Income Opportunity Fund Inc., both Funds intend to file a combined proxy statement and prospectus with the Securities and Exchange Commission (SEC). **Investors and stockholders are advised to read the proxy statement and prospectus when it becomes available because it will contain important information.** When filed with the SEC, the proxy statement and prospectus and other documents filed by the Funds will be available free of charge at the SEC's website, <http://www.sec.gov>. Stockholders can also obtain copies of these documents, when available, for free by calling the Funds at 1-888-777-0102. This is neither an offer to purchase nor a solicitation of an offer to sell shares of the Funds.

Western Asset Managed High Income Fund Inc., Western Asset High Income Opportunity Fund Inc., their directors and executive officers and investment adviser, members of their management and employees may be deemed to be participants in the solicitation of proxies from the Funds stockholders in connection with the proposed merger. Information concerning the interests of the participants in the solicitation will be set forth in the proxy statement and prospectus and stockholder reports of both Funds on Form N-CSR, to be filed with the SEC.

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

## Letter from the chairman (cont d)

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

May 17, 2016

IV Western Asset High Income Opportunity Fund Inc.



## Investment commentary

### Economic review

The pace of U.S. economic activity was mixed during the six months ended March 31, 2016 (the reporting period). Looking back, the U.S. Department of Commerce reported that third quarter 2015 U.S. gross domestic product (GDP) growth was 2.0%. The U.S. Department of Commerce then reported that fourth quarter 2015 GDP growth was 1.4%. Slower growth was attributed to downturns in nonresidential fixed investment and state and local government spending, along with a deceleration in personal consumption expenditures (PCE) and less export activity. The U.S. Department of Commerce's initial reading for first quarter 2016 GDP growth released after the reporting period ended was 0.5%. This further slowdown was attributed to a number of factors, including a decrease in nonresidential fixed investment, a deceleration in PCE and a downturn in federal government spending.

Job growth in the U.S. was solid overall and was a tailwind for the economy during the reporting period. When the period ended in March 2016, unemployment was 5.0%, close to its lowest level since February 2008.

## Investment commentary (cont d)

### Market review

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

A. After an extended period of maintaining the federal funds rate<sup>iii</sup> at a historically low range between zero and 0.25%, the Fed increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. In its official statement after the December 2015 meeting, the Fed said, "The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. At its meetings that concluded on January 27, 2016, March 16, 2016 and April 27, 2016 (after the reporting period ended), the Fed kept rates on hold.

#### Q. Did Treasury yields trend higher or lower during the six months ended March 31, 2016?

A. Short-term Treasury yields moved higher, whereas long-term Treasury yields declined during the reporting period. When the period began, the yield on the two-year Treasury note was 0.64%. Its low for the period was 0.57% on October 14, 2015, and it peaked at 1.09% on December 29, 2015. The yield on the two-year Treasury note ended the period at 0.73%. The yield on the ten-year Treasury note began the period at 2.06%. Its peak of 2.36% occurred on November 9, 2015, and its low of 1.63% occurred on February 11, 2016. The yield on the ten-year Treasury note ended the period at 1.78%.

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

A. The spread sectors posted mixed results during the reporting period. Performance fluctuated with investor sentiment given the uncertainties regarding future Fed monetary policy, along with concerns over global growth and geopolitical issues. The broad U.S. bond market, as measured by the Barclays U.S. Aggregate Index<sup>iv</sup>, returned 2.44% during the six months ended March 31, 2016.

#### Q. How did the high-yield bond market perform over the six months ended March 31, 2016?

A. The U.S. high-yield bond market, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned 1.23% for the six months ended March 31, 2016. After a strong start in October 2015, the high-yield market declined during the next three months of the reporting period. This was triggered by a number of factors, including falling oil prices and poor investor demand. After stabilizing in February 2016, the high-yield market rallied sharply in March 2016. This turnaround occurred as oil prices started to rebound and the Fed reduced its expectations for rate hikes in 2016.

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

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Global)<sup>i</sup> gained 6.85% during the six months ended March 31, 2016. The asset class posted a strong return

in October 2015, but then declined over the next three months of the reporting period due to concerns over economic growth in China, falling commodity prices and expectations for future Fed rate hikes. The asset class then rallied sharply in February and March 2016, as oil prices moved higher, global monetary policy remained accommodative and investor risk appetite improved.

### Performance review

For the six months ended March 31, 2016, Western Asset High Income Opportunity Fund Inc. returned -2.66% based on its net asset value ( NAV<sup>vii</sup> ) and 4.70% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmark, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned 1.23% for the same period. The Lipper High Yield Closed-End Funds Category Average<sup>viii</sup> returned -0.46% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.21 per share. As of March 31, 2016, the Fund estimates that all of the distributions were sourced from net investment income.\* The performance table shows the Fund's six-month total return based on its NAV and market price as of March 31, 2016. **Past performance is no guarantee of future results.**

#### Performance Snapshot as of March 31, 2016 (unaudited)

	6-Month Total Return**
Price Per Share	
\$5.11 (NAV)	-2.66%
\$4.69 (Market Price)	4.70%

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

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

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

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

### Looking for additional information?

The Fund is traded under the symbol HIO and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XHIOX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press

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

## Investment commentary (cont'd)

release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com).

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

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

Sincerely,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

April 29, 2016

***RISKS:** The Fund's investments are subject to credit risk, inflation risk and interest rate risk. The Fund may invest in lower-rated high-yield bonds, commonly known as junk bonds, which are subject to greater credit risk (risk of default) than higher-rated obligations. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. In addition, the Fund may invest in foreign securities, which are subject to certain risks of overseas investing, including currency fluctuations and changes in political and economic conditions, which could result in significant fluctuations. These risks are magnified in emerging markets.*

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

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

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Federal Reserve Board ( Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- iv The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- v The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- vi The JPMorgan Emerging Markets Bond Index Global ( EMBI Global ) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- vii Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any), from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- viii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended March 31, 2016, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 9 funds in the Fund's Lipper category.

## Fund at a glance (unaudited)

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

The bar graph above represents the composition of the Fund's investments as of March 31, 2016 and September 30, 2015 and does not include derivatives, such as futures contracts and forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

## Spread duration (unaudited)

Economic exposure March 31, 2016

### Total Spread Duration

HIO 3.96 years

Benchmark 4.26 years

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

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

## Effective duration (unaudited)

Interest rate exposure March 31, 2016

### Total Effective Duration

HIO 4.53 years

Benchmark 4.22 years

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

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



## Schedule of investments (unaudited)

March 31, 2016

### Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Corporate Bonds &amp; Notes 88.6%</b>				
<b>Consumer Discretionary 16.3%</b>				
<i>Auto Components 0.4%</i>				
ZF North America Capital Inc., Senior Notes	4.750%	4/29/25	1,670,000	\$ 1,667,912 (a)
<i>Automobiles 0.2%</i>				
General Motors Co., Senior Notes	6.600%	4/1/36	870,000	960,052
<i>Diversified Consumer Services 0.6%</i>				
Service Corp. International, Senior Notes	7.500%	4/1/27	1,280,000	1,478,400
StoneMor Partners LP/Cornerstone Family Services of WV, Senior Bonds	7.875%	6/1/21	920,000	931,919
<i>Total Diversified Consumer Services</i>				2,410,319
<i>Hotels, Restaurants &amp; Leisure 3.4%</i>				
Bossier Casino Venture Holdco Inc., Senior Secured Bonds	14.000%	2/9/18	1,329,034	1,207,693 (a)(b)(c)(d)
Boyd Gaming Corp., Senior Notes	6.375%	4/1/26	730,000	761,025 (a)
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	1,000,000	1,077,500
CCM Merger Inc., Senior Notes	9.125%	5/1/19	1,710,000	1,778,400 (a)
CEC Entertainment Inc., Senior Notes	8.000%	2/15/22	2,090,000	1,802,625
Downstream Development Authority of the Quapaw Tribe of Oklahoma, Senior Secured Notes	10.500%	7/1/19	1,320,000	1,260,600 (a)
Fontainebleau Las Vegas Holdings LLC, Senior Secured Notes	10.250%	6/15/15	445,000	879 *(a)(e)
Greektown Holdings LLC/Greektown Mothership Corp., Senior Secured Notes	8.875%	3/15/19	620,000	638,600 (a)
Landry s Holdings II Inc., Senior Notes	10.250%	1/1/18	750,000	748,125 (a)
Landry s Inc., Senior Notes	9.375%	5/1/20	3,598,000	3,795,890 (a)
Viking Cruises Ltd., Senior Notes	8.500%	10/15/22	1,660,000	1,577,000 (a)
<i>Total Hotels, Restaurants &amp; Leisure</i>				14,648,337
<i>Household Durables 1.7%</i>				
Century Intermediate Holding Co. 2, Senior Notes	9.750%	2/15/19	1,980,000	2,014,650 (a)(b)
Shea Homes LP/Shea Homes Funding Corp., Senior Notes	6.125%	4/1/25	1,650,000	1,625,250 (a)
William Lyon Homes Inc., Senior Notes	8.500%	11/15/20	1,520,000	1,567,248
William Lyon Homes Inc., Senior Notes	7.000%	8/15/22	310,000	299,150
Woodside Homes Co., LLC/Woodside Homes Finance Inc., Senior Notes	6.750%	12/15/21	1,920,000	1,718,400 (a)
<i>Total Household Durables</i>				7,224,698
<i>Leisure Products 0.2%</i>				
Gibson Brands Inc., Senior Secured Notes	8.875%	8/1/18	1,380,000	807,300 (a)
<i>Media 7.2%</i>				
AMC Entertainment Inc., Senior Subordinated Notes	5.750%	6/15/25	290,000	297,975
CCO Safari II LLC, Senior Secured Notes	4.908%	7/23/25	1,940,000	2,049,338 (a)

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Media continued</i>				
CCO Safari II LLC, Senior Secured Notes	6.484%	10/23/45	790,000	\$ 881,483 <sup>(a)</sup>
DISH DBS Corp., Senior Notes	7.875%	9/1/19	1,085,000	1,197,569
DISH DBS Corp., Senior Notes	6.750%	6/1/21	2,020,000	2,090,700
DISH DBS Corp., Senior Notes	5.875%	7/15/22	2,610,000	2,479,500
DISH DBS Corp., Senior Notes	5.875%	11/15/24	480,000	442,200
iHeartCommunications Inc., Senior Notes	14.000%	2/1/21	1,878,600	432,078 <sup>(b)</sup>
MDC Partners Inc., Senior Notes	6.500%	5/1/24	1,620,000	1,658,475 <sup>(a)</sup>
New Cotai LLC/New Cotai Capital Corp., Senior Secured Notes	10.625%	5/1/19	1,794,072	1,282,761 <sup>(a)(b)</sup>
Numericable-SFR SAS, Senior Secured Bonds	6.250%	5/15/24	5,040,000	4,911,480 <sup>(a)</sup>
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	1,490,000	1,745,752
Time Warner Cable Inc., Senior Notes	8.250%	4/1/19	678,000	789,843
Tribune Media Co., Senior Notes	5.875%	7/15/22	760,000	744,405 <sup>(a)</sup>
Univision Communications Inc., Senior Secured Notes	6.750%	9/15/22	217,000	231,105 <sup>(a)</sup>
Univision Communications Inc., Senior Secured Notes	5.125%	2/15/25	1,240,000	1,227,600 <sup>(a)</sup>
UPC Holding BV, Junior Secured Subordinated Notes	6.375%	9/15/22	2,030,000 <sup>EUR</sup>	2,473,365 <sup>(a)</sup>
Viacom Inc., Senior Notes	4.375%	3/15/43	980,000	760,250
Virgin Media Finance PLC, Senior Notes	6.375%	4/15/23	2,890,000	3,020,050 <sup>(a)</sup>
Virgin Media Finance PLC, Senior Notes	6.000%	10/15/24	2,000,000	2,062,500 <sup>(a)</sup>
Virgin Media Finance PLC, Senior Notes	5.750%	1/15/25	200,000	203,000 <sup>(a)</sup>
<i>Total Media</i>				<i>30,981,429</i>
<i>Multiline Retail 0.4%</i>				
Neiman Marcus Group LLC, Senior Secured Notes	7.125%	6/1/28	330,000	301,950
Neiman Marcus Group Ltd. LLC, Senior Notes	8.000%	10/15/21	210,000	181,650 <sup>(a)</sup>
Neiman Marcus Group Ltd. LLC, Senior Notes	8.750%	10/15/21	1,530,000	1,186,699 <sup>(a)(b)</sup>
<i>Total Multiline Retail</i>				<i>1,670,299</i>
<i>Specialty Retail 2.1%</i>				
American Greetings Corp., Senior Notes	7.375%	12/1/21	1,220,000	1,252,025
GameStop Corp., Senior Notes	6.750%	3/15/21	920,000	892,400 <sup>(a)</sup>
Guitar Center Inc., Senior Secured Bonds	6.500%	4/15/19	3,530,000	3,194,650 <sup>(a)</sup>
Hot Topic Inc., Senior Secured Notes	9.250%	6/15/21	730,000	735,475 <sup>(a)</sup>
L Brands Inc., Debentures	6.950%	3/1/33	470,000	486,450
L Brands Inc., Senior Notes	6.875%	11/1/35	1,290,000	1,406,358
Sally Holdings LLC/Sally Capital Inc., Senior Notes	5.625%	12/1/25	1,180,000	1,262,600
<i>Total Specialty Retail</i>				<i>9,229,958</i>
<i>Textiles, Apparel &amp; Luxury Goods 0.1%</i>				
Empire Today LLC/Empire Today Finance Corp., Senior Secured Notes	11.375%	2/1/17	370,000	366,300 <sup>(a)</sup>
<b>Total Consumer Discretionary</b>				<b>69,966,604</b>

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

March 31, 2016

### Western Asset High Income Opportunity Fund Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
<b>Consumer Staples 4.6%</b>				
<i>Beverages 0.9%</i>				
Carolina Beverage Group LLC/Carolina Beverage Group Finance Inc., Secured Notes	10.625%	8/1/18	1,370,000	\$ 1,322,050 <sup>(a)</sup>
Cott Beverages Inc., Senior Notes	6.750%	1/1/20	1,120,000	1,178,800
DS Services of America Inc., Secured Notes	10.000%	9/1/21	1,230,000	1,399,125 <sup>(a)</sup>
<i>Total Beverages</i>				<i>3,899,975</i>
<i>Food &amp; Staples Retailing 0.7%</i>				
Beverages & More Inc., Senior Secured Notes	10.000%	11/15/18	1,900,000	1,712,375 <sup>(a)</sup>
Dollar Tree Inc., Senior Notes	5.750%	3/1/23	1,180,000	1,256,700 <sup>(a)</sup>
<i>Total Food &amp; Staples Retailing</i>				<i>2,969,075</i>
<i>Food Products 1.4%</i>				
Dole Food Co. Inc., Senior Secured Notes	7.250%	5/1/19	1,290,000	1,286,775 <sup>(a)</sup>
Hearthside Group Holdings LLC/Hearthside Finance Co., Senior Notes	6.500%	5/1/22	1,010,000	863,550 <sup>(a)</sup>
Pilgrim s Pride Corp., Senior Notes	5.750%	3/15/25	1,630,000	1,644,262 <sup>(a)</sup>
Simmons Foods Inc., Secured Notes	7.875%	10/1/21	2,630,000	2,222,350 <sup>(a)</sup>
<i>Total Food Products</i>				<i>6,016,937</i>
<i>Household Products 1.2%</i>				
Central Garden & Pet Co., Senior Notes	6.125%	11/15/23	700,000	731,500
Kronos Acquisition Holdings Inc., Senior Notes	9.000%	8/15/23	380,000	351,500 <sup>(a)</sup>
Spectrum Brands Inc., Senior Notes	6.625%	11/15/22	580,000	630,019
Spectrum Brands Inc., Senior Notes	6.125%	12/15/24	440,000	471,900
Spectrum Brands Inc., Senior Notes	5.750%	7/15/25	1,190,000	1,270,325
Sun Products Corp., Senior Notes	7.750%	3/15/21	1,690,000	1,563,250 <sup>(a)</sup>
<i>Total Household Products</i>				<i>5,018,494</i>
<i>Tobacco 0.4%</i>				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	2,370,000	1,816,013
<b>Total Consumer Staples</b>				<b>19,720,494</b>
<b>Energy 10.6%</b>				
<i>Energy Equipment &amp; Services 1.0%</i>				
Atwood Oceanics Inc., Senior Notes	6.500%	2/1/20	1,020,000	489,600
CGG, Senior Notes	6.500%	6/1/21	1,470,000	602,700
CGG, Senior Notes	6.875%	1/15/22	200,000	79,000
EnSCO PLC, Senior Notes	4.700%	3/15/21	850,000	594,252
EnSCO PLC, Senior Notes	5.750%	10/1/44	1,030,000	511,137
KCA Deutag UK Finance PLC, Senior Secured Notes	7.250%	5/15/21	510,000	321,300 <sup>(a)</sup>
SESI LLC, Senior Notes	7.125%	12/15/21	1,320,000	999,900

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Energy Equipment &amp; Services continued</i>				
Sierra Hamilton LLC/Sierra Hamilton Finance Inc., Senior Secured Notes	12.250%	12/15/18	1,390,000	\$ 834,000 <sup>(a)</sup>
<i>Total Energy Equipment &amp; Services</i>				<i>4,431,889</i>
<i>Oil, Gas &amp; Consumable Fuels 9.6%</i>				
Berry Petroleum Co., Senior Notes	6.750%	11/1/20	800,000	148,000
Berry Petroleum Co., Senior Notes	6.375%	9/15/22	2,209,000	408,665
California Resources Corp., Senior Notes	5.500%	9/15/21	5,000,000	1,125,000
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	6.500%	4/15/21	2,310,000	1,651,650 <sup>(d)</sup>
Carrizo Oil & Gas Inc., Senior Notes	7.500%	9/15/20	960,000	900,000
Chesapeake Energy Corp., Senior Notes	6.875%	11/15/20	3,360,000	1,335,600
Chesapeake Energy Corp., Senior Notes	5.375%	6/15/21	1,095,000	394,200
Chesapeake Energy Corp., Senior Notes	5.750%	3/15/23	1,270,000	438,150
Continental Resources Inc., Senior Notes	5.000%	9/15/22	120,000	104,025
Continental Resources Inc., Senior Notes	3.800%	6/1/24	290,000	230,550
Continental Resources Inc., Senior Notes	4.900%	6/1/44	1,370,000	1,027,500
Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., Senior Notes	6.125%	3/1/22	1,570,000	1,185,350
Endeavor Energy Resources LP/EER Finance Inc., Senior Notes	7.000%	8/15/21	630,000	592,200 <sup>(a)</sup>
Enterprise Products Operating LLC, Junior Subordinated Notes	8.375%	8/1/66	680,000	538,050 <sup>(f)</sup>
EP Energy LLC/Everest Acquisition Finance Inc., Senior Notes	9.375%	5/1/20	1,450,000	738,594
EV Energy Partners LP/EV Energy Finance Corp., Senior Notes	8.000%	4/15/19	280,000	71,400
Freeport-McMoran Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.125%	6/15/19	330,000	283,800
Freeport-McMoran Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.750%	2/1/22	162,000	125,550
Freeport-McMoran Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.875%	2/15/23	2,010,000	1,547,700
Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes	6.750%	8/1/22	850,000	790,500
Globe Luxembourg SCA, Senior Secured Notes	9.625%	5/1/18	3,430,000	2,615,375 <sup>(a)</sup>
Kinder Morgan Inc., Medium-Term Notes	7.750%	1/15/32	4,290,000	4,497,619
Lonestar Resources America Inc., Senior Notes	8.750%	4/15/19	550,000	327,250 <sup>(a)</sup>
Magnum Hunter Resources Corp., Senior Notes	9.750%	5/15/20	4,340,000	976,500 <sup>*(d)(g)</sup>
MEG Energy Corp., Senior Notes	6.500%	3/15/21	2,760,000	1,680,150 <sup>(a)</sup>
MEG Energy Corp., Senior Notes	6.375%	1/30/23	330,000	196,350 <sup>(a)</sup>
Milagro Oil & Gas Inc., Secured Notes	10.500%	5/15/16	1,690,000	481,650 <sup>*(d)(g)</sup>
Murray Energy Corp., Senior Secured Notes	11.250%	4/15/21	4,660,000	629,100 <sup>(a)</sup>
Natural Resource Partners LP/Natural Resource Partners Finance Corp., Senior Notes	9.125%	10/1/18	1,570,000	1,024,425

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

March 31, 2016

### Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Oasis Petroleum Inc., Senior Notes	7.250%	2/1/19	1,240,000	\$ 951,700
Oasis Petroleum Inc., Senior Notes	6.500%	11/1/21	1,770,000	1,318,650
Oasis Petroleum Inc., Senior Notes	6.875%	1/15/23	920,000	683,100
Petrobras Global Finance BV, Senior Notes	6.750%	1/27/41	1,850,000	1,339,400
Rice Energy Inc., Senior Notes	7.250%	5/1/23	1,460,000	1,284,800
RSP Permian Inc., Senior Notes	6.625%	10/1/22	1,440,000	1,425,600
Sanchez Energy Corp., Senior Notes	6.125%	1/15/23	5,810,000	3,166,450
Shelf Drilling Holdings Ltd., Senior Secured Notes	8.625%	11/1/18	930,000	627,750 (a)
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes	6.625%	10/1/20	470,000	466,475 (a)
Whiting Petroleum Corp., Senior Notes	5.000%	3/15/19	950,000	662,625
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	920,000	623,300
Williams Cos. Inc., Debentures	7.500%	1/15/31	400,000	327,000
Williams Cos. Inc., Senior Notes	3.700%	1/15/23	530,000	398,825
Williams Cos. Inc., Senior Notes	4.550%	6/24/24	670,000	512,550
Williams Cos. Inc., Senior Notes	5.750%	6/24/44	490,000	328,300
WPX Energy Inc., Senior Notes	7.500%	8/1/20	340,000	266,900
WPX Energy Inc., Senior Notes	8.250%	8/1/23	530,000	412,075
<i>Total Oil, Gas &amp; Consumable Fuels</i>				<i>40,860,403</i>
<b>Total Energy</b>				<b>45,292,292</b>
<b>Financials 15.0%</b>				
<i>Banks 7.3%</i>				
Bank of America Corp., Junior Subordinated Notes	6.500%	10/23/24	1,400,000	1,446,830 (f)(h)
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	1,930,000	2,454,925 (a)
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	2,200,000	2,369,125
Barclays PLC, Junior Subordinated Bonds	8.250%	12/15/18	420,000	421,084 (f)(h)
BNP Paribas SA, Junior Subordinated Notes	7.375%	8/19/25	2,700,000	2,615,625 (a)(f)(h)
CIT Group Inc., Senior Notes	5.375%	5/15/20	370,000	384,800
CIT Group Inc., Senior Notes	5.000%	8/15/22	650,000	659,340
CIT Group Inc., Senior Notes	5.000%	8/1/23	2,240,000	2,256,800
Citigroup Inc., Junior Subordinated Bonds	6.300%	5/15/24	1,290,000	1,240,636 (f)(h)
Cooperatieve Rabobank U.A., Subordinated Notes	5.250%	8/4/45	320,000	347,408
Credit Agricole SA, Junior Subordinated Notes	8.375%	10/13/19	1,660,000	1,838,782 (a)(f)(h)
Credit Agricole SA, Junior Subordinated Notes	8.125%	12/23/25	1,600,000	1,602,392 (a)(f)(h)
HSBC Holdings PLC, Junior Subordinated Bonds	6.375%	9/17/24	790,000	734,700 (f)(h)
HSBC Holdings PLC, Junior Subordinated Bonds	6.375%	3/30/25	1,070,000	1,013,825 (f)(h)
HSBC Holdings PLC, Subordinated Notes	5.250%	3/14/44	1,500,000	1,526,931
JPMorgan Chase & Co., Junior Subordinated Bonds	6.000%	8/1/23	630,000	635,670 (f)(h)

See Notes to Financial Statements.

## Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Banks continued</i>				
JPMorgan Chase & Co., Junior Subordinated Notes	6.100%	10/1/24	800,000	\$ 816,208 <sup>(f)(h)</sup>
M&T Bank Corp., Junior Subordinated Bonds	6.875%	6/15/16	1,790,000	1,801,187 <sup>(h)</sup>
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds	7.648%	9/30/31	1,210,000	1,421,750 <sup>(f)(h)</sup>
Royal Bank of Scotland Group PLC, Subordinated Notes	6.100%	6/10/23	1,470,000	1,507,817
Royal Bank of Scotland NV, Subordinated Bonds	7.750%	5/15/23	390,000	421,870
Royal Bank of Scotland PLC, Subordinated Notes	13.125%	3/19/22	2,480,000 <sup>AUD</sup>	2,036,475 <sup>(f)(i)</sup>
Santander Issuances SAU, Notes	5.911%	6/20/16	1,100,000	1,107,533 <sup>(a)</sup>
Wells Fargo & Co., Junior Subordinated Bonds	5.875%	6/15/25	580,000	620,049 <sup>(f)(h)</sup>
<i>Total Banks</i>				<i>31,281,762</i>
<i>Capital Markets 1.2%</i>				
Credit Suisse Group AG, Junior Subordinated Notes	6.250%	12/18/24	1,800,000	1,659,076 <sup>(a)(f)(h)</sup>
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	1,210,000	1,449,672
Goldman Sachs Group Inc., Subordinated Notes	5.150%	5/22/45	1,320,000	1,346,048
Pershing Square Holdings Ltd., Senior Notes	5.500%	7/15/22	1,000,000	922,500 <sup>(a)</sup>
<i>Total Capital Markets</i>				<i>5,377,296</i>
<i>Consumer Finance 1.1%</i>				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	1,133,000	1,271,793
Navient Corp., Medium-Term Notes, Senior Notes	8.450%	6/15/18	1,110,000	1,193,250
Navient Corp., Medium-Term Notes, Senior Notes	8.000%	3/25/20	1,150,000	1,147,125
TMX Finance LLC/TitleMax Finance Corp., Senior Secured Notes	8.500%	9/15/18	1,180,000	949,900 <sup>(a)</sup>
<i>Total Consumer Finance</i>				<i>4,562,068</i>
<i>Diversified Financial Services 2.8%</i>				
AerCap Ireland Capital Ltd./AerCap Global Aviation Trust, Senior Bonds	4.625%	7/1/22	1,010,000	1,033,987
AerCap Ireland Capital Ltd./AerCap Global Aviation Trust, Senior Notes	4.625%	10/30/20	500,000	514,375
AerCap Ireland Capital Ltd./AerCap Global Aviation Trust, Senior Notes	5.000%	10/1/21	370,000	383,875
Argos Merger Sub Inc., Senior Notes	7.125%	3/15/23	2,210,000	2,354,755 <sup>(a)</sup>
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	100,000	105,590
International Lease Finance Corp., Senior Notes	8.875%	9/1/17	4,200,000	4,527,600
International Lease Finance Corp., Senior Notes	6.250%	5/15/19	160,000	171,000
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	1,860,000	2,178,525
International Lease Finance Corp., Senior Notes	8.625%	1/15/22	150,000	180,938
International Lease Finance Corp., Senior Notes	5.875%	8/15/22	390,000	424,612
<i>Total Diversified Financial Services</i>				<i>11,875,257</i>

See Notes to Financial Statements.

## Schedule of investments (unaudited) (cont d)

March 31, 2016

### Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Insurance 0.7%</i>				
Fidelity & Guaranty Life Holdings Inc., Senior Notes	6.375%	4/1/21	850,000	\$ 858,500 <sup>(a)</sup>
Genworth Holdings Inc., Senior Notes	4.900%	8/15/23	940,000	702,650
Liberty Mutual Group Inc., Junior Subordinated Bonds	7.800%	3/15/37	670,000	731,975 <sup>(a)</sup>
MetLife Capital Trust IV, Junior Subordinated Notes	7.875%	12/15/37	650,000	750,750 <sup>(a)</sup>
<i>Total Insurance</i>				<i>3,043,875</i>
<i>Real Estate Investment Trusts (REITs) 0.3%</i>				
Communications Sales & Leasing Inc., Senior Secured Notes	6.000%	4/15/23	870,000	848,250 <sup>(a)</sup>
MPT Operating Partnership LP/MPT Finance Corp., Senior Notes	6.375%	3/1/24	530,000	560,475
<i>Total Real Estate Investment Trusts (REITs)</i>				<i>1,408,725</i>
<i>Real Estate Management &amp; Development 1.6%</i>				
Caesars Entertainment Resort Properties LLC, Secured Notes	11.000%	10/1/21	800,000	686,000
Caesars Entertainment Resort Properties LLC, Senior Secured Notes	8.000%	10/1/20	2,870,000	2,824,080
Greystar Real Estate Partners LLC, Senior Secured Notes	8.250%	12/1/22	1,610,000	1,670,375 <sup>(a)</sup>
Howard Hughes Corp., Senior Notes	6.875%	10/1/21	1,610,000	1,593,900 <sup>(a)</sup>
<i>Total Real Estate Management &amp; Development</i>				<i>6,774,355</i>
<b>Total Financials</b>				<b>64,323,338</b>
<i>Health Care 7.1%</i>				
<i>Biotechnology 0.2%</i>				
AMAG Pharmaceuticals Inc., Senior Notes	7.875%	9/1/23	800,000	710,000 <sup>(a)</sup>
<i>Health Care Equipment &amp; Supplies 1.6%</i>				
ConvaTec Finance International SA, Senior Notes	8.250%	1/15/19	2,330,000	2,316,894 <sup>(a)(b)</sup>
DJO Finance LLC/DJO Finance Corp., Secured Notes	10.750%	4/15/20	1,210,000	987,662 <sup>(a)</sup>
DJO Finco Inc./DJO Finance LLC/DJO Finance Corp., Secured Notes	8.125%	6/15/21	930,000	827,700 <sup>(a)</sup>
Greatbatch Ltd., Senior Notes	9.125%	11/1/23	950,000	944,063 <sup>(a)</sup>
ImmuCor Inc., Senior Notes	11.125%	8/15/19	1,820,000	1,683,500
<i>Total Health Care Equipment &amp; Supplies</i>				<i>6,759,819</i>
<i>Health Care Providers &amp; Services 3.6%</i>				
BioScrip Inc., Senior Notes	8.875%	2/15/21	860,000	731,000
Centene Escrow Corp., Senior Notes	5.625%	2/15/21	740,000	773,300 <sup>(a)</sup>
Centene Escrow Corp., Senior Notes	6.125%	2/15/24	460,000	485,300 <sup>(a)</sup>
HCA Inc., Debentures	7.500%	11/15/95	3,920,000	3,822,000
HCA Inc., Senior Secured Notes	5.250%	6/15/26	560,000	575,400
IASIS Healthcare LLC/IASIS Capital Corp., Senior Notes	8.375%	5/15/19	2,580,000	2,557,425
Tenet Healthcare Corp., Senior Notes	8.125%	4/1/22	3,130,000	3,235,637
Tenet Healthcare Corp., Senior Secured Notes	6.000%	10/1/20	1,330,000	1,423,100
Universal Hospital Services Inc., Secured Notes	7.625%	8/15/20	2,160,000	2,008,800
<i>Total Health Care Providers &amp; Services</i>				<i>15,611,962</i>

See Notes to Financial Statements.

Western Asset High Income Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Pharmaceuticals 1.7%</i>				
DPx Holdings BV, Senior Notes	7.500%	2/1/22	980,000	\$ 978,775 <sup>(a)</sup>
JLL/Delta Dutch Pledgeco BV, Senior Notes	8.750%	5/1/20	1,550,000	1,515,125 <sup>(a)(b)</sup>
Mallinckrodt International Finance SA, Senior Notes	5.750%	8/1/22	1,590,000	1,472,738 <sup>(a)</sup>
Valeant Pharmaceuticals International Inc., Senior Notes	5.375%	3/15/20	1,760,000	1,443,200 <sup>(a)</sup>
Valeant Pharmaceuticals International Inc., Senior Notes	7.500%	7/15/21	1,010,000	846,501 <sup>(a)</sup>
Valeant Pharmaceuticals International Inc., Senior Notes	5.625%	12/1/21	430,000	