

WESTERN ASSET INFLATION-LINKED INCOME FUND

Form N-CSR

January 31, 2019

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-21403**

**Western Asset Inflation-Linked Income Fund**

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

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

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

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

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

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

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

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

**Table of Contents**

ITEM 1. REPORT TO STOCKHOLDERS.

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

**Table of Contents**

Annual Report

November 30, 2018

**WESTERN ASSET  
INFLATION-LINKED  
INCOME FUND (WIA)**

Beginning in January 2021, as permitted by regulations adopted by the Securities and Exchange Commission, the Fund intends to no longer mail paper copies of the Fund's shareholder reports like this one, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you invest through a financial intermediary and you already elected to receive shareholder reports electronically ( e-delivery ), you will not be affected by this change and you need not take any action. If you have not already elected e-delivery, you may elect to receive shareholder reports and other communications from the Fund electronically by contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. That election will apply to all Legg Mason funds held in your account at that financial intermediary. If you are a direct shareholder with the Fund, you can call the Fund at 1-888-888-0151, or write to the Fund by regular mail at P.O. Box 505000, Louisville, KY 40233 or by overnight delivery to Computershare, 462 South 4th Street, Suite 1600, Louisville, KY 40202 to let the Fund know you wish to continue receiving paper copies of your shareholder reports. That election will apply to all Legg Mason Funds held in your account held directly with the fund complex.

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

**Table of Contents**

<b>What's inside</b>	
<a href="#">Letter from the president</a>	II
<a href="#">Investment commentary</a>	IV
<a href="#">Fund overview</a>	1
<a href="#">Fund at a glance</a>	8
<a href="#">Spread duration</a>	9
<a href="#">Effective duration</a>	10
<a href="#">Consolidated schedule of investments</a>	11
<a href="#">Consolidated statement of assets and liabilities</a>	20
<a href="#">Consolidated statement of operations</a>	21
<a href="#">Consolidated statements of changes in net assets</a>	22
<a href="#">Consolidated statement of cash flows</a>	23
<a href="#">Consolidated financial highlights</a>	25
<a href="#">Notes to consolidated financial statements</a>	26
<a href="#">Report of independent registered public</a>	
<a href="#">accounting firm</a>	45
<a href="#">Board approval of management and subadvisory agreements</a>	46
<a href="#">Additional information</a>	49
<a href="#">Annual principal executive officer and principal financial officer certifications</a>	53
<a href="#">Other shareholder communications regarding accounting matters</a>	54
<a href="#">Dividend reinvestment plan</a>	55
<a href="#">Important tax information</a>	56
<b>Fund objective</b>	

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

## Letter from the president

### Dear Shareholder,

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

### Special shareholder notice:

On April 27, 2018, Western Asset/Claymore Inflation-Linked Securities & Income Fund was renamed Western Asset Inflation-Linked Income Fund. The Fund's common shares continue to trade under its existing New York Stock Exchange symbol (WIA) and its CUSIP (95766Q106) remains the same.

In addition, on February 26, 2018, the Fund announced new management arrangements designed to reduce shareholder expenses and enhance management efficiencies for the Fund. As a result of changes approved by the Fund's Board of Trustees, beginning April 27, 2018 aggregate annual advisory, administration and servicing fee rates for the Fund are expected to decrease by approximately 16.5 basis points ( 1 bps = 0.01%) of total Fund assets, including assets attributable to leverage, on an annual basis.

Shareholder savings on the Fund are the result of Western Asset Management Company, LLC (formerly known as Western Asset Management Company) ( Western Asset ) reducing its contractual investment advisory fee rate from 40 to 35 bps and Legg Mason Partners Fund Advisor, LLC ( LMPFA ) replacing Security Investors, LLC ( Security Investors ), and assuming its servicing and administration responsibilities for the

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Fund, for a total of 5 bps including the services LMPFA already provided to the Fund. These changes were effective April 27, 2018.

Western Asset's portfolio management team for the Fund, and the Fund's investment strategies, have not changed as a result of restructuring the management arrangements for the Fund. For more information, please call 1-888-777-0102 or consult the Fund's website at [www.lmcef.com](http://www.lmcef.com).

II Western Asset Inflation-Linked Income Fund

**Table of Contents**

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

President

December 28, 2018

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**Table of Contents**

## Investment commentary

### Economic review

Economic activity in the U.S. was mixed during the twelve months ended November 30, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that fourth quarter 2017 and first quarter 2018 U.S. gross domestic product (GDP) growth was 2.3% and 2.2%, respectively. GDP growth then accelerated to 4.2% during the second quarter of 2018—the strongest reading since the third quarter of 2014. Finally, the U.S. Department of Commerce's final reading for third quarter 2018 GDP growth—released after the reporting period ended—was 3.4%. The deceleration in GDP growth in the third quarter of 2018 reflected a downturn in exports and decelerations in nonresidential fixed investment and personal consumption expenditures. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. As reported by the U.S. Department of Labor, when the reporting period ended on November 30, 2018, the unemployment rate was 3.7%, versus 4.1% when the period began. November 2018's reading equaled the lowest unemployment rate since 1969. The percentage of longer-term unemployed also declined during the reporting period. In November 2018, 20.8% of Americans looking for a job had been out of work for more than six months, versus 22.9% when the period began.

Looking back, at its meeting that concluded on September 20, 2017, the Federal Reserve Board (the Fed) kept the federal funds rate<sup>iii</sup> on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program." At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As widely expected, the Fed again raised rates at its meetings that ended on March 21, 2018 (to a range between 1.50% and 1.75%), June 13, 2018 (to a range between 1.75% and 2.00%) and September 26, 2018 (to a range between 2.00% and 2.25%). Finally, at its meeting that ended on December 19, 2018, after the reporting period ended, the Fed raised rates to a range between 2.25% and 2.50%.

Inflation remained generally well contained during the reporting period. For the twelve months ended November 30, 2018, the seasonally unadjusted rate of inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U<sup>v</sup>), was 2.2%. The CPI-U less food and energy was also 2.2% over the same period.

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

Sincerely,

Jane Trust, CFA

President

December 28, 2018

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



**Table of Contents**

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
  
- ii The Federal Reserve Board (the Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
  
- iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
  
- iv The Consumer Price Index for All Urban Consumers ( CPI-U ) is a measure of the average change in prices over time of goods and services purchased by households, which covers approximately 87% of the total population and includes, in addition to wage earners and clerical worker households, groups such as professional, managerial and technical workers, the self-employed, short-term workers, the unemployed and retirees and others not in the labor force.

Western Asset Inflation-Linked Income Fund V

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**Table of Contents**

## Fund overview

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

A. The Fund's investment objective is to provide current income. Capital appreciation, when consistent with current income, is a secondary investment objective. Under normal market conditions and at the time of purchase, the Fund will invest at least 80% of its total managed assets<sup>i</sup> in inflation-linked securities and at least 60% of its total managed assets in U.S. Treasury Inflation Protected Securities (TIPS)<sup>ii</sup>. The Fund may also invest up to 40% of its total managed assets in non-U.S. dollar investments, which gives the Fund flexibility to invest up to 40% of its total managed assets in non-U.S. dollar inflation-linked securities (no more than 20% of its non-U.S. dollar exposure may be unhedged). The Fund can invest no more than 10% of its total managed assets in assets rated below investment grade at the time of purchase (or, if unrated, assets of comparable quality as determined by management). The Fund can engage in currency strategies, using instruments such as currency forwards, futures and options, to take long and short foreign currency positions subject to a limit of exposure from such strategies to 40% of total managed assets. This capacity is in addition to the capacity to have 20% unhedged exposure to non-U.S. dollar currencies through the purchase of fixed income securities. The Fund can utilize commodity-related strategies for up to 10% of its total managed assets. Exposure to commodities is expected to be achieved using a variety of instruments, such as futures contracts, options and other derivatives, or through investments in exchange-traded products that offer exposure to commodities. The Fund does not expect to hold physical commodities.

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

Reverse repurchase agreements and other forms of leverage will not exceed 38% of the Fund's total managed assets. The Fund currently expects that the average effective duration<sup>iii</sup> of its portfolio will range between zero and fifteen years, although this target duration may change from time to time. The Fund may enter into credit default swap contracts, interest rate swap contracts and total return swap contracts for investment purposes, to manage its credit risk or to add leverage. There can be no assurance that the Fund will achieve its investment objectives.

The Fund seeks to offer an inflation hedge through investments in global inflation-linked securities, and primarily in TIPS. The Fund also seeks to offer shareholders certain additional advantages through the ability to invest in other fixed-income asset classes, which may result in higher total returns and higher distribution rates. These asset classes include select investments in high-yield and investment-grade credit, emerging markets and structured products.

At Western Asset Management Company, LLC (formerly known as Western Asset

**Table of Contents**

## Fund overview (continued)

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

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

A. Fixed income markets generally posted weak results over the twelve-month reporting period ended November 30, 2018. Spread sectors (non-Treasuries) experienced periods of elevated volatility as they were impacted by a number of factors, including the December 2017 signing of the U.S. tax reform legislation, solid economic growth in the U.S., four interest rate hikes by the Federal Reserve Board (the "Fed"), concerns over a global trade war and geopolitical issues.

Both short- and long-term Treasury yields moved sharply higher during the reporting period. The yield for the two-year Treasury note began the reporting period at 1.78% (equaling the low for the period) and ended the period at 2.80%. The high for the period of 2.98% occurred on November 8, 2018. The yield for the ten-year Treasury began the reporting period at 2.42% and ended the period at 3.01%. The low of 2.33% occurred on December 6, 2017, and the peak of 3.24% took place on November 8, 2018.

Inflation was relatively well contained during the reporting period. For the twelve months ended November 30, 2018, the seasonally unadjusted rate of inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was 2.2%. The CPI-U less food and energy was also 2.2% over the same time frame. TIPS, as measured by the Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index<sup>vi</sup>, returned -0.90% during the reporting period.

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

A. A number of adjustments were made to the Fund during the reporting period. The Fund modestly decreased its exposures to high-yield corporate bonds and commercial mortgage-backed securities ("CMBS") as they generally performed well. A portion of these proceeds were allocated to U.S. dollar-denominated emerging markets debt, as their spreads widened and valuations became more attractive. Finally, the Fund reduced its allocations to the long end of the real and nominal yield curves<sup>vii</sup> given the flattening of both curves. In addition, should economic growth moderate and the Fed take a less aggressive approach to raising rates, the shorter end of the curve could potentially benefit.

The Fund employed U.S. Treasury futures and options, including options on futures, Eurodollar futures and Euro-bund futures, during the reporting period to manage its yield curve positioning and interest rate risk, or duration<sup>viii</sup>. The use of these instruments contributed to performance. Credit linked credit default swap contracts were

**Table of Contents**

employed to achieve a synthetic exposure to corporate bonds. They modestly contributed to performance. Currency forwards and futures, which were used to manage the Fund’s currency exposure, detracted from performance. Commodity futures were used to manage the Fund’s commodity exposure. They contributed to performance over the reporting period.

Leverage was used to add yield to the portfolio, by increasing the Fund’s exposure to non-TIPS asset classes, including credit. The Fund ended the reporting period with leverage as a percentage of gross assets of roughly 31% versus 28% when the reporting period began. The use of leverage to purchase TIPS and high-yield corporate bonds, amongst others, generated mixed results during the reporting period.

**Performance review**

For the twelve months ended November 30, 2018, Western Asset Inflation-Linked Income Fund returned -2.49% based on its net asset value (NAV<sup>x</sup>) and -4.61% based on its New York Stock Exchange (NYSE) market price per share. The Fund’s unmanaged benchmarks, the Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index<sup>x</sup> and the Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index<sup>xi</sup>, returned -0.19% and -1.03%, respectively, for the same period. The Bloomberg Barclays World Government Inflation-Linked All Maturities Index<sup>xii</sup> and the Fund’s Custom Benchmark<sup>xiii</sup> returned -4.04% and -1.20%, respectively, over the same time frame.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.41 per share\*. The performance table shows the Fund’s twelve-month total return based on its NAV and market price as of November 30, 2018. **Past performance is no guarantee of future results.**

**Performance Snapshot as of November 30, 2018**

	<b>12-Month Total Return**</b>
Price Per Share	
\$12.35 (NAV)	-2.49%
\$10.69 (Market Price)	-4.61%

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

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

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

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

One of the distinguishing features of closed-end funds compared to other investment vehicles is the ability to trade at a premium or discount to NAV. Since the Fund is listed on the NYSE, the share price may trade above (premium) or below (discount) its NAV. Whereas the NAV is reflective of the Fund’s underlying investments, the share price is reflective of the overall supply and demand in the marketplace. Historically, the majority of closed-end funds have traded at a discount to NAV. This Fund was no exception to the phenomenon. We believe the Fund’s discount may be driven by a number of factors, including the overall

\* For the tax character of distributions paid during the fiscal year ended November 30, 2018, please refer to page 42 of this report.

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**Table of Contents**

## Fund overview (cont'd)

closed-end fund market, current distribution rate and muted demand for inflation-linked investment products. While there are actions that may temporarily reduce the discount to NAV, which the Board of Trustees regularly evaluates, we believe that if investor demand for inflation-linked investments increased, that development, among other factors, may help reduce the Fund's share price discount to NAV over time. Western Asset continues to believe the Fund offers investors the opportunity for long-term inflation protection while providing a source of diversification for investors' fixed-income portfolios.

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

**A.** The largest contributor to the Fund's absolute performance during the reporting period were its allocations to high-yield corporate bonds and securitized products. Despite weakness late in the reporting period, high-yield bonds generated a positive return over the twelve months ended November 30, 2018. In terms of the Fund's structured product allocation, its exposures to non-agency residential mortgage-backed securities and CMBS were the most additive for results. Elsewhere, our tactical commodity exposure contributed to performance. In particular, the Fund's tactical positioning in the Energy sector was rewarded.

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

**A.** The largest detractor from the Fund's absolute performance for the reporting period was its allocation to emerging markets debt. The asset class was impacted by a combination of a stronger U.S. dollar and idiosyncratic headlines that weighed on investor sentiment. Concerns surrounding the impact of escalating tariffs between the U.S. and China further weighed on the asset class, as the anticipated impact of a full-blown trade war would be destabilizing to emerging market countries.

Elsewhere, duration and yield curve positioning were negative for performance. Finally, an allocation to industrial metals was a headwind for results, as they are typically sensitive to moderating global growth.

### **Looking for additional information?**

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

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

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

Western Asset Management Company, LLC

December 18, 2018

***RISKS:** Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund is subject to the additional risks*

## **Table of Contents**

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

*An investment in the Fund is subject to the following additional risks. Lower grade securities, or equivalent unrated securities, which are commonly known as junk bonds, typically entail greater potential price volatility and may be less liquid than higher-rated securities. The Fund may have to apply a greater degree of judgment in establishing a price for lower grade securities for purposes of valuing fund shares. Changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of such securities to make principal and interest payments than is the case for higher grade securities. Lower grade securities are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. These securities may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher*

*rated securities. Lower grade and unrated securities are generally issued by less creditworthy issuers that may have a larger amount of outstanding debt relative to their assets than issuers of higher grade securities. In the event of an issuer's bankruptcy, claims of other creditors may have priority over the claims of lower grade security holders, leaving few or no assets available to repay lower grade security holders. The Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting issuer. Lower grade securities frequently have redemption features that permit an issuer to repurchase the security from the Fund before it matures. If the issuer redeems lower grade securities, the Fund may have to invest the proceeds in securities with lower yields and may lose income. Lower grade and unrated securities involve the risk that the Fund's investment manager may not accurately evaluate the security's comparative rating. Analysis of the creditworthiness of issuers of lower grade and unrated securities may be more complex than for issuers of higher-quality securities. To the extent that the Fund holds lower grade and/or unrated securities, the Fund's success in achieving its investment objectives may depend more heavily on the Fund's investment manager's credit analysis than if the Fund held exclusively higher-quality and rated securities. If changes in the currency exchange rates do not occur as anticipated, the Fund may lose money on currency transactions. The Fund's ability to use currency transactions successfully depends on a number of factors, including the currency transactions being available at prices that are not too costly, the availability of liquid markets and the ability of the Fund to accurately predict the direction of changes in currency exchange rates. Currency exchange rates may be volatile. Currency transactions are subject to counterparty risk, which is the risk that the other party in the*

**Table of Contents****Fund overview (cont d)**

transaction will not fulfill its contractual obligation. The Fund may gain exposure to the commodities markets by investing a portion of its assets in a wholly-owned subsidiary, Western Asset Inflation-Linked Income Fund CFC (the *Subsidiary*), organized under the laws of the Cayman Islands. The Fund and the Subsidiary are deemed *commodity pools* and the investment adviser is considered a *commodity pool operator* with respect to the Fund under the Commodity Exchange Act. The investment adviser, directly or through its affiliates, is therefore subject to dual regulation by the Securities and Exchange Commission (the *SEC*) and the Commodity Futures Trading Commission (the *CFTC*).

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

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

Portfolio holdings and breakdowns are as of November 30, 2018 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 11 through 19 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis

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**Table of Contents**

upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of November 30, 2018 were: U.S. Treasury Inflation Protected Securities (112.3%), Corporate Bonds & Notes (6.9%), Non-U.S. Treasury Inflation Protected Securities (6.5%), Collateralized Mortgage Obligations (5.9%) and Sovereign Bonds (4.5%). The Fund's portfolio composition is subject to change at any time.

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

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

<sup>i</sup> Total managed assets equals the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage).

<sup>ii</sup> U.S. Treasury Inflation-Protected Securities ( TIPS ) are inflation-indexed securities issued by the U.S. Treasury in five-year, ten-year and thirty-year maturities. The principal is adjusted to the Consumer Price Index, the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal.

<sup>iii</sup> Effective duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Please note, duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. Funds that employ leverage calculate effective duration based off of net assets.

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

<sup>v</sup> The Consumer Price Index for All Urban Consumers ( CPI-U ) is a measure of the average change in prices over time of goods and services purchased by households, which covers approximately 87% of the total population and includes, in addition to wage earners and clerical worker households, groups such as professional, managerial and technical workers, the self-employed, short-term workers, the unemployed and retirees and others not in the labor force.

<sup>vi</sup> Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index represents an unmanaged market index made up of U.S. Treasury Inflation-Linked Index securities.

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

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

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

<sup>x</sup> The Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index measures the performance of the intermediate U.S. TIPS market.



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- <sup>xi</sup> The Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index measures the performance of the U.S. TIPS market. The Index includes TIPS with one or more years remaining maturity with total outstanding issue size of \$500 million or more.
  
- <sup>xii</sup> The Bloomberg Barclays World Government Inflation-Linked All Maturities Index measures the performance of the major government inflation-linked bond markets.
  
- <sup>xiii</sup> The Custom Benchmark is comprised of 90% Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index and 10% Bloomberg Barclays U.S. Credit Index. The Bloomberg Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).

**Table of Contents**

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

Represents less than 0.1%.

**Table of Contents**

## Spread duration (unaudited)

**Economic exposure** November 30, 2018

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

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

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

**Table of Contents**

## Effective duration (unaudited)

Interest rate exposure November 30, 2018

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

Benchmark	Bloomberg Barclays U.S. Government Inflation-Linked All Maturities Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
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\* Formerly, Western Asset/Claymore Inflation-Linked Securities & Income Fund

**Table of Contents****Consolidated schedule of investments**

November 30, 2018

**Western Asset Inflation-Linked Income Fund**

Security	Rate	Maturity Date	Face Amount	Value
<b>U.S. Treasury Inflation Protected Securities 112.3%</b>				
U.S. Treasury Bonds, Inflation Indexed	2.375%	1/15/25	10,713,760	\$ 11,580,403
U.S. Treasury Bonds, Inflation Indexed	2.000%	1/15/26	54,258,401	57,836,870 <sup>(a)</sup>
U.S. Treasury Bonds, Inflation Indexed	1.750%	1/15/28	33,618,942	35,590,553 <sup>(a)</sup>
U.S. Treasury Bonds, Inflation Indexed	3.625%	4/15/28	156,077	191,255
U.S. Treasury Bonds, Inflation Indexed	2.500%	1/15/29	7,160,500	8,125,816
U.S. Treasury Bonds, Inflation Indexed	3.875%	4/15/29	32,247,180	40,963,366 <sup>(a)</sup>
U.S. Treasury Bonds, Inflation Indexed	2.125%	2/15/40	3,503,820	4,084,368
U.S. Treasury Bonds, Inflation Indexed	2.125%	2/15/41	3,561,967	4,174,411
U.S. Treasury Bonds, Inflation Indexed	1.375%	2/15/44	21,457,201	21,975,751 <sup>(a)</sup>
U.S. Treasury Bonds, Inflation Indexed	0.750%	2/15/45	15,179,662	13,437,361
U.S. Treasury Bonds, Inflation Indexed	1.000%	2/15/48	3,071,070	2,875,229
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/19	24,778,590	24,474,827
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/20	62,231,208	61,034,392 <sup>(a)</sup>
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/21	6,390,660	6,222,344
U.S. Treasury Notes, Inflation Indexed	0.625%	7/15/21	15,680,560	15,523,950
U.S. Treasury Notes, Inflation Indexed	0.125%	4/15/22	36,330,350	35,120,994 <sup>(a)</sup>
U.S. Treasury Notes, Inflation Indexed	0.125%	7/15/22	25,138,246	24,391,242 <sup>(a)</sup>
U.S. Treasury Notes, Inflation Indexed	0.125%	1/15/23	6,561,900	6,321,366
U.S. Treasury Notes, Inflation Indexed	0.625%	1/15/24	9,217,703	9,040,197
U.S. Treasury Notes, Inflation Indexed	0.625%	1/15/26	21,981,056	21,361,122
<b>Total U.S. Treasury Inflation Protected Securities (Cost \$414,747,132)</b>				<b>404,325,817</b>
<b>Corporate Bonds &amp; Notes 6.9%</b>				
<b>Consumer Staples 0.0%</b>				
<i>Tobacco 0.0%</i>				
Pyxus International Inc., Secured Notes	9.875%	7/15/21	160,000	<b>136,000</b>
<b>Energy 3.5%</b>				
<i>Energy Equipment &amp; Services 0.0%</i>				
Halliburton Co., Senior Notes	3.800%	11/15/25	200,000	<i>191,338</i>
<i>Oil, Gas &amp; Consumable Fuels 3.5%</i>				
Anadarko Petroleum Corp., Senior Notes	5.550%	3/15/26	110,000	114,245
Anadarko Petroleum Corp., Senior Notes	6.200%	3/15/40	1,330,000	1,395,976
Apache Corp., Senior Notes	2.625%	1/15/23	115,000	108,344
Apache Corp., Senior Notes	5.250%	2/1/42	440,000	401,986
Apache Corp., Senior Notes	4.250%	1/15/44	1,310,000	1,062,450
BP Capital Markets PLC, Senior Notes	3.119%	5/4/26	200,000	186,506
Exxon Mobil Corp., Senior Notes	3.043%	3/1/26	200,000	192,175
KazTransGas JSC, Senior Notes	4.375%	9/26/27	2,000,000	1,842,968 <sup>(b)</sup>
MEG Energy Corp., Secured Notes	6.500%	1/15/25	30,000	30,713 <sup>(b)</sup>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated schedule of investments (cont d)**

November 30, 2018

**Western Asset Inflation-Linked Income Fund**

	Rate	Maturity Date	Face Amount	Value
<b>Security</b>				
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
MEG Energy Corp., Senior Notes	7.000%	3/31/24	50,000	\$ 47,062 <sup>(b)</sup>
Noble Energy Inc., Senior Notes	3.900%	11/15/24	200,000	191,487
Noble Energy Inc., Senior Notes	4.950%	8/15/47	1,590,000	1,368,302
Oasis Petroleum Inc., Senior Notes	6.875%	1/15/23	450,000	444,937
Occidental Petroleum Corp., Senior Notes	3.000%	2/15/27	810,000	753,396
Transcontinental Gas Pipe Line Co., LLC, Senior Notes	7.850%	2/1/26	200,000	240,280
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	2,000,000	1,975,200
Williams Cos. Inc., Senior Notes	5.750%	6/24/44	1,340,000	1,321,483
YPF Sociedad Anonima, Senior Notes	8.500%	7/28/25	800,000	758,400 <sup>(c)</sup>
<i>Total Oil, Gas &amp; Consumable Fuels</i>				<i>12,435,910</i>
<b>Total Energy</b>				<b>12,627,248</b>
<b>Financials 1.0%</b>				
<i>Banks 0.7%</i>				
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	2,440,000	2,563,525
<i>Diversified Financial Services 0.3%</i>				
ILFC E-Capital Trust II, Ltd. Gtd. ((Highest of 3 mo. USD LIBOR, 10 year U.S. Treasury Constant Maturity Rate and 30 year U.S. Treasury Constant Maturity Rate) + 1.800%)	5.030%	12/21/65	1,010,000	833,250 <sup>(b)(d)</sup>
<b>Total Financials</b>				<b>3,396,775</b>
<b>Health Care 1.0%</b>				
<i>Pharmaceuticals 1.0%</i>				
Bausch Health Cos. Inc., Senior Notes	6.125%	4/15/25	2,380,000	2,240,056 <sup>(b)</sup>
Bausch Health Cos. Inc., Senior Notes	9.000%	12/15/25	680,000	719,950 <sup>(b)</sup>
Valeant Pharmaceuticals International, Senior Notes	9.250%	4/1/26	600,000	640,314 <sup>(b)</sup>
<b>Total Health Care</b>				<b>3,600,320</b>
<b>Materials 1.4%</b>				
<i>Metals &amp; Mining 1.4%</i>				
Alcoa Nederland Holding BV, Senior Notes	6.125%	5/15/28	720,000	703,800 <sup>(b)</sup>
Anglo American Capital PLC, Senior Notes	4.000%	9/11/27	800,000	721,501 <sup>(b)</sup>
ArcelorMittal, Senior Notes	6.125%	6/1/25	350,000	368,293
Barrick Gold Corp., Senior Notes	5.250%	4/1/42	200,000	195,901
Glencore Funding LLC, Senior Notes	4.000%	3/27/27	200,000	182,728 <sup>(b)</sup>
Glencore Funding LLC, Senior Notes	3.875%	10/27/27	800,000	719,446 <sup>(b)</sup>
Southern Copper Corp., Senior Notes	5.250%	11/8/42	1,670,000	1,529,542
Yamana Gold Inc., Senior Notes	4.625%	12/15/27	670,000	617,543
<b>Total Materials</b>				<b>5,038,754</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$25,255,678)</b>				<b>24,799,097</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****Western Asset Inflation-Linked Income Fund**

Security	Rate	Maturity Date	Face Amount	Value
<b>Non-U.S. Treasury Inflation Protected Securities 6.5%</b>				
<i>Brazil 2.8%</i>				
Brazil Notas do Tesouro Nacional Serie B, Notes	6.000%	8/15/30	12,752,137 <sup>BRL</sup>	\$ 3,609,462
Brazil Notas do Tesouro Nacional Serie B, Notes	6.000%	8/15/50	22,433,160 <sup>BRL</sup>	6,626,367
<i>Total Brazil</i>				<i>10,235,829</i>
<i>Italy 3.7%</i>				
Italy Buoni Poliennali Del Tesoro, Senior Bonds	3.100%	9/15/26	10,824,403 <sup>EUR</sup>	13,236,979 <sup>(c)</sup>
<b>Total Non-U.S. Treasury Inflation Protected Securities (Cost \$23,592,808)</b>				<b>23,472,808</b>
<b>Collateralized Mortgage Obligations<sup>(e)</sup> 5.9%</b>				
Alternative Loan Trust, 2007-12T1 A3	6.000%	6/25/37	1,698,468	1,279,814
BCAP LLC Trust, 2011-RR5, 11A4 (1 mo. USD LIBOR + 0.150%)	2.431%	5/28/36	1,046,281	1,038,421 <sup>(b)(d)</sup>
Bear Stearns ARM Trust, 2004-9, 24A1	4.657%	11/25/34	28,094	27,185 <sup>(d)</sup>
Chase Mortgage Finance Trust, 2007-A1, 2A3	4.453%	2/25/37	7,285	7,390 <sup>(d)</sup>
CSMC Trust, 2014-11R 9A2 (1 mo. USD LIBOR + 0.140%)	2.421%	10/27/36	2,430,000	1,929,746 <sup>(b)(d)</sup>
Federal Home Loan Mortgage Corp. (FHLMC) Multifamily Structured Pass-Through Certificates, K721, X1, IO	0.450%	8/25/22	150,452,566	1,581,918 <sup>(d)</sup>
Federal Home Loan Mortgage Corp. (FHLMC) REMICS, 4085, IO	3.000%	6/15/27	2,862,898	219,893
Federal Home Loan Mortgage Corp. (FHLMC) REMICS, 4057, IO	3.000%	5/15/27	1,038,064	82,145
Federal Home Loan Mortgage Corp. (FHLMC) Structured Agency Credit Risk Debt Notes, 2017-DNA2 M2 (1 mo. USD LIBOR + 3.450%)	5.765%	10/25/29	1,300,000	1,400,523 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2014-C04, 1M2 (1 mo. USD LIBOR + 4.900%)	7.215%	11/25/24	1,024,044	1,159,773 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2016-C04, 1M1 (1 mo. USD LIBOR + 1.450%)	3.765%	1/25/29	428,165	430,927 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2017-C03 1B1 (1 mo. USD LIBOR + 4.850%)	7.165%	10/25/29	1,340,000	1,490,714 <sup>(b)(d)</sup>
Federal National Mortgage Association (FNMA) CAS, 2017-C03, 1M2 (1 mo. USD LIBOR + 3.000%)	5.315%	10/25/29	1,310,000	1,381,715 <sup>(b)(d)</sup>
Government National Mortgage Association (GNMA), 2011-142, IO	0.328%	9/16/46	3,776,694	39,437 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-112, IO	0.278%	2/16/53	1,863,425	36,877 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-152, IO	0.781%	1/16/54	6,324,266	317,610 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2012-44, IO	0.448%	3/16/49	1,132,293	15,755 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2013-145, IO	1.067%	9/16/44	2,532,097	122,843 <sup>(d)</sup>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated schedule of investments (cont d)**

November 30, 2018

**Western Asset Inflation-Linked Income Fund**

Security	Rate	Maturity Date	Face Amount	Value
<b>Collateralized Mortgage Obligations <sup>(e)</sup> continued</b>				
Government National Mortgage Association (GNMA), 2014-169, IO	0.828%	10/16/56	13,881,377	\$ 675,515 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2014-47, IA, IO	0.256%	2/16/48	625,268	14,426 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2014-50, IO	0.842%	9/16/55	1,594,125	84,284 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2015-101, IO	0.827%	3/16/52	21,965,684	1,188,752 <sup>(d)</sup>
Government National Mortgage Association (GNMA), 2015-183, IO	0.946%	9/16/57	26,871,527	1,819,001 <sup>(d)</sup>
GSR Mortgage Loan Trust, 2004-11, 1A1	4.685%	9/25/34	68,061	69,719 <sup>(d)</sup>
Merrill Lynch Mortgage Investors Trust Series MLMI, 2004-A1 2A1 (6 mo. USD LIBOR + 1.750%)	4.103%	2/25/34	9,734	9,760 <sup>(d)</sup>
New Residential Mortgage Loan Trust, 2014-1A A	3.750%	1/25/54	915,971	916,003 <sup>(b)(d)</sup>
Nomura Resecuritization Trust, 2015-4R, 2A2 (1 mo. USD LIBOR + 0.306%)	1.891%	10/26/36	2,726,255	2,238,563 <sup>(b)(d)</sup>
RAMP Series Trust, 2004-SL4, A5	7.500%	7/25/32	56,351	43,152
WaMu Mortgage Pass-Through Certificates Series Trust, 2007-OA2, 1A (Federal Reserve US 12 mo. Cumulative Avg 1 Year CMT + 0.700%)	2.753%	3/25/47	1,486,641	1,377,736 <sup>(d)</sup>
Washington Mutual MSC Mortgage Pass-Through Certificates Series Trust, 2004-RA1, 2A	7.000%	3/25/34	8,652	9,396
<b>Total Collateralized Mortgage Obligations (Cost \$22,199,655)</b>				<b>21,008,993</b>
<b>Sovereign Bonds 4.5%</b>				
<i>Argentina 0.5%</i>				
Argentina POM Politica Monetaria, Bonds (Argentina Central Bank 7 Day Repo Reference Rate)	64.608%	6/21/20	64,160,000 ARS	1,756,360 <sup>(d)</sup>
<i>Chile 1.0%</i>				
Bonos de la Tesoreria de la Republica en pesos, Bonds	5.000%	3/1/35	2,330,000,000 CLP	3,567,936
<i>Ecuador 0.6%</i>				
Ecuador Government International Bond, Senior Notes	10.500%	3/24/20	1,520,000	1,575,100 <sup>(b)</sup>
Ecuador Government International Bond, Senior Notes	7.950%	6/20/24	520,000	468,650 <sup>(c)</sup>
<i>Total Ecuador</i>				<i>2,043,750</i>
<i>Indonesia 1.1%</i>				
Indonesia Government International Bond, Senior Notes	5.125%	1/15/45	200,000	189,480 <sup>(b)</sup>
Indonesia Government International Bond, Senior Notes	4.750%	7/18/47	400,000	360,898 <sup>(b)</sup>
Indonesia Government International Bond, Senior Notes	4.350%	1/11/48	290,000	252,785
Indonesia Treasury Bond, Senior Notes	7.000%	5/15/27	49,188,000,000 IDR	3,244,809
<i>Total Indonesia</i>				<i>4,047,972</i>

See Notes to Consolidated Financial Statements.



**Table of Contents****Western Asset Inflation-Linked Income Fund**

Security	Rate	Maturity Date	Face Amount	Value
<i>Security</i>				
<i>Mexico 0.4%</i>				
Mexican Bonos, Senior Notes	7.750%	11/13/42	10,990,000 MXN	\$ 444,832
Mexican Bonos, Senior Notes	8.000%	11/7/47	25,110,000 MXN	1,034,740
<i>Total Mexico</i>				<i>1,479,572</i>
<i>Nigeria 0.0%</i>				
Nigeria Government International Bond, Senior Notes	6.500%	11/28/27	200,000	174,910 <sup>(b)</sup>
<i>Russia 0.9%</i>				
Russian Federal Bond OFZ, Bonds	7.050%	1/19/28	236,150,000 RUB	3,197,947
<b>Total Sovereign Bonds (Cost \$19,975,269)</b>				<b>16,268,447</b>
<i>Asset-Backed Securities 3.5%</i>				
Ajax Mortgage Loan Trust, 2016-C A	4.000%	10/25/57	1,277,995	1,279,135 <sup>(b)</sup>
Ameriquest Mortgage Securities Inc., 2005-R7, M2 (1 mo. USD LIBOR + 0.500%)	2.815%	9/25/35	1,300,000	1,304,847 <sup>(d)</sup>
Ameriquest Mortgage Securities Inc. Asset-Backed Pass-Through Certificates Series, 2005-R10, M5 (1 mo. USD LIBOR + 0.630%)	2.945%	1/25/36	4,660,000	4,325,148 <sup>(d)</sup>
CWHEQ Revolving Home Equity Loan Trust Series, 2005-C, 2A (1 mo. USD LIBOR + 0.180%)	2.487%	7/15/35	680,462	659,879 <sup>(d)</sup>
CWHEQ Revolving Home Equity Loan Trust Series, 2006-I, 2A (1 mo. USD LIBOR + 0.140%)	2.447%	1/15/37	989,393	939,576 <sup>(d)</sup>
First Franklin Mortgage Loan Trust, 2006-FF15, A5 (1 mo. USD LIBOR + 0.160%)	2.475%	11/25/36	1,447,497	1,410,659 <sup>(d)</sup>
Structured Asset Securities Corp. Mortgage Loan Trust, 2005-WF4, M8 (1 mo. USD LIBOR + 2.625%)	4.940%	11/25/35	2,600,000	2,622,407 <sup>(d)</sup>
<b>Total Asset-Backed Securities (Cost \$11,069,441)</b>				<b>12,541,651</b>
<i>U.S. Government &amp; Agency Obligations 1.3%</i>				
<i>U.S. Government Obligations 1.3%</i>				
U.S. Treasury Bonds	3.000%	8/15/48	1,980,000	1,862,785
U.S. Treasury Bonds	3.375%	11/15/48	2,620,000	2,651,727
<b>Total U.S. Government &amp; Agency Obligations (Cost \$4,461,335)</b>				<b>4,514,512</b>
	Expiration Date	Contracts	Notional Amount	
<i>Purchased Options 0.0%</i>				
<i>Exchange-Traded Purchased Options 0.0%</i>				
U.S. Treasury 10-Year Notes Futures, Put @ \$119.00 (Cost \$55,551)	12/21/18	102	102,000	23,906
<b>Total Investments before Short-Term Investments (Cost \$521,356,869)</b>				<b>506,955,231</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated schedule of investments (cont d)**

November 30, 2018

**Western Asset Inflation-Linked Income Fund**

Security	Rate	Maturity Date	Face Amount	Value
<b>Short-Term Investments</b> 3.3%				
<b>Sovereign Bonds</b> 0.1%				
Argentina Treasury Bill (Cost \$435,622)	(15.827)%	3/29/19	15,956,000 <sup>ARS</sup>	\$ 447,319 <sup>(f)</sup>
			Shares	
<b>Money Market Funds</b> 3.2%				
Dreyfus Government Cash Management, Institutional Shares (Cost \$11,573,163)	2.115%		11,573,163	11,573,163
<b>Total Short-Term Investments (Cost \$12,008,785)</b>				12,020,482
<b>Total Investments</b> 144.2% (Cost \$533,365,654)				518,975,713
Liabilities in Excess of Other Assets (44.2)%				(159,053,129)
<b>Total Net Assets</b> 100.0%				\$ 359,922,584

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

- (a) All or a portion of this security is held by the counterparty as collateral for open reverse repurchase agreements.
- (b) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Trustees.
- (c) Security is exempt from registration under Regulation S of the Securities Act of 1933. Regulation S applies to securities offerings that are made outside of the United States and do not involve direct selling efforts in the United States. This security has been deemed liquid pursuant to guidelines approved by the Board of Trustees.
- (d) Variable rate security. Interest rate disclosed is as of the most recent information available. Certain variable rate securities are not based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description above.
- (e) Collateralized mortgage obligations are secured by an underlying pool of mortgages or mortgage pass-through certificates that are structured to direct payments on underlying collateral to different series or classes of the obligations. The interest rate may change positively or inversely in relation to one or more interest rates, financial indices or other financial indicators and may be subject to an upper and/or lower limit.
- (f) Rate shown represents yield-to-maturity.

**Abbreviations used in this schedule:**

ARM	Adjustable Rate Mortgage
ARS	Argentine Peso

## Edgar Filing: WESTERN ASSET INFLATION-LINKED INCOME FUND - Form N-CSR

BRL	Brazilian Real
CAS	Connecticut Avenue Securities
CLP	Chilean Peso
CMT	Constant Maturity Treasury
EUR	Euro
IDR	Indonesian Rupiah
IO	Interest Only
JSC	Joint Stock Company
LIBOR	London Interbank Offered Rate
MXN	Mexican Peso
REMICS	Real Estate Mortgage Investment Conduits
RUB	Russian Ruble

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

16 Western Asset Inflation-Linked Income Fund 2018 Annual Report

**Table of Contents****Western Asset Inflation-Linked Income Fund**

At November 30, 2018, the Fund had the following open reverse repurchase agreements:

Counterparty	Rate	Effective Date	Maturity Date	Face Amount of Reverse Repurchase Agreements	Asset Class of Collateral*	Collateral Value
					U.S. Treasury inflation protected securities	\$ 169,913,949
Deutsche Bank	2.570%	11/15/2018	1/11/2019	\$ 166,052,925	Cash	652,000
						<b>\$ 170,565,949</b>

\* Refer to the Consolidated Schedule of Investments for positions held at the counterparty as collateral for reverse repurchase agreements. At November 30, 2018, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Notional Amount	Market Value	Unrealized Appreciation (Depreciation)
<b>Contracts to Buy:</b>					
90-Day EuroDollar	62	12/18	\$ 15,333,576	\$ 15,066,387	\$ (267,189)
90-Day EuroDollar Canadian Dollar	92	12/19	22,367,666	22,304,250	(63,416)
Copper	234	12/18	17,890,709	17,612,010	(278,699)
Euro	165	3/19	11,342,100	11,498,437	156,337
Gasoline	83	12/18	12,115,805	11,746,575	(369,230)
Gold 100 Ounce	51	2/19	4,421,712	3,054,064	(1,367,648)
Japanese Yen	54	2/19	6,647,535	6,620,400	(27,135)
Mexican Peso	35	12/18	3,947,875	3,855,031	(92,844)
Natural Gas	205	12/18	5,245,119	5,012,250	(232,869)
U.S. Treasury 10-Year Notes	92	3/19	2,603,930	2,656,040	52,110
U.S. Treasury Long-Term Bonds	64	3/19	7,640,610	7,645,000	4,390
U.S. Treasury Ultra 10-Year Notes	212	3/19	29,547,577	29,660,125	112,548
U.S. Treasury Ultra Long-Term Bonds	18	3/19	2,266,806	2,277,000	10,194
WTI Crude	88	3/19	13,397,215	13,411,750	14,535
WTI Crude	78	2/19	4,032,152	3,995,940	(36,212)
	63	2/19	3,628,841	3,227,490	(401,351)
					(2,786,479)
<b>Contracts to Sell:</b>					
Brent Crude	78	1/19	4,678,391	4,647,240	31,151
British Pound	33	12/18	2,699,134	2,629,894	69,240
Euro-Bund	108	3/19	19,714,730	19,858,574	(143,844)
Gasoline	51	3/19	4,819,590	3,468,969	1,350,621
Natural Gas	76	2/19	3,029,390	3,050,640	(21,250)
U.S. Treasury 5-Year Notes	1,406	3/19	158,460,798	158,823,082	(362,284)
					923,634
<b>Net unrealized depreciation on open futures contracts</b>					<b>\$ (1,862,845)</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated schedule of investments (cont d)**

November 30, 2018

**Western Asset Inflation-Linked Income Fund**

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

	Currency Purchased	Currency Sold	Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)	
MXN	34,000,000	USD	1,651,688	Citibank N.A.	12/19/18	\$ 13,934
INR	245,800,000	USD	3,297,868	Barclays Bank PLC	1/18/19	209,823
MYR	24,027,000	USD	5,800,121	Barclays Bank PLC	1/18/19	(60,159)
USD	5,239,464	EUR	4,600,000	Barclays Bank PLC	1/18/19	7,066
USD	9,766,476	TWD	301,120,000	Barclays Bank PLC	1/18/19	(52,573)
CAD	760,000	USD	586,352	Citibank N.A.	1/18/19	(13,605)
COP	41,617,990,000	USD	13,813,267	Citibank N.A.	1/18/19	(975,409)
GBP	2,415,890	USD	3,207,263	Citibank N.A.	1/18/19	(119,985)
JPY	880,310	USD	7,913	Citibank N.A.	1/18/19	(121)
MXN	30,840,000	USD	1,616,818	Citibank N.A.	1/18/19	(113,053)
RUB	1,049,151,000	USD	15,890,449	Citibank N.A.	1/18/19	(323,322)
USD	8,066,852	EUR	6,920,000	Citibank N.A.	1/18/19	195,505
BRL	13,517,512	USD	3,539,542	Goldman Sachs Group Inc.	1/18/19	(53,427)
USD	3,538,708	BRL	13,517,512	Goldman Sachs Group Inc.	1/18/19	52,593
AUD	5,122,482	USD	3,650,388	JPMorgan Chase & Co.	1/18/19	96,791
INR	262,318,791	USD	3,593,211	JPMorgan Chase & Co.	1/18/19	150,211
USD	7,284,236	CAD	9,486,625	JPMorgan Chase & Co.	1/18/19	134,985
USD	13,680,233	EUR	11,699,491	JPMorgan Chase & Co.	1/18/19	372,320
USD	3,527,767	MXN	73,239,264	JPMorgan Chase & Co.	1/18/19	(43,397)
<b>Total</b>						<b>\$ (521,823)</b>

**Abbreviations used in this table:**

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

See Notes to Consolidated Financial Statements.



**Table of Contents****Western Asset Inflation-Linked Income Fund**

At November 30, 2018, the Fund had the following open swap contracts:

Reference Entity	Notional Amount <sup>2</sup>	Termination Date	CENTRALLY CLEARED CREDIT DEFAULT SWAPS ON CREDIT INDICES		SELL PROTECTION <sup>3</sup>	
			Periodic Payments Received by the Fund	Market Value <sup>3</sup>	Upfront Premiums Paid (Received)	Unrealized Depreciation
Markit CDX.NA.IG.31 Index	\$ 32,170,000	12/20/23	1.000% quarterly	\$ 369,858	\$ 565,372	\$ (195,514)

<sup>1</sup> If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

<sup>2</sup> The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

<sup>3</sup> The quoted market prices and resulting values for credit default swap agreements on asset-backed securities and credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative had the notional amount of the swap agreement been closed/sold as of the period end. Decreasing market values (sell protection) or increasing market values (buy protection) when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

Percentage shown is an annual percentage rate.

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated statement of assets and liabilities**

November 30, 2018

<b>Assets:</b>	
Investments, at value (Cost \$533,365,654)	\$ 518,975,713
Foreign currency, at value (Cost \$1,404,420)	1,225,287
Receivable for securities sold	4,193,743
Deposits with brokers for open futures contracts and exchange-traded options	3,000,569
Interest receivable	2,434,325
Unrealized appreciation on forward foreign currency contracts	1,233,228
Deposits with brokers for OTC derivatives	1,120,000
Deposits with brokers for centrally cleared swap contracts	662,017
Deposits with brokers for open reverse repurchase agreements	652,000
Foreign currency collateral for open futures contracts, at value (Cost \$585,850)	584,007
Prepaid expenses	14,868
<b>Total Assets</b>	<b>534,095,757</b>
<b>Liabilities:</b>	
Payable for open reverse repurchase agreements	166,052,925
Payable for securities purchased	5,699,026
Unrealized depreciation on forward foreign currency contracts	1,755,051
Interest payable	189,669
Investment management fee payable	150,151
Payable to broker variation margin on open futures contracts	74,796
Administration fee payable	21,450
Payable to broker variation margin on centrally cleared swap contracts	16,157
Trustees fees payable	13,824
Due to custodian	6,597
Accrued expenses	193,527
<b>Total Liabilities</b>	<b>174,173,173</b>
<b>Total Net Assets</b>	<b>\$ 359,922,584</b>
<b>Net Assets:</b>	
Common shares, no par value, unlimited number of shares authorized, 29,152,820 shares issued and outstanding	\$ 381,524,996
Total distributable earnings (loss)	(21,602,412)
<b>Total Net Assets</b>	<b>\$ 359,922,584</b>
<b>Shares Outstanding</b>	<b>29,152,820</b>
<b>Net Asset Value</b>	<b>\$12.35</b>

See Notes to Consolidated Financial Statements.



**Table of Contents****Consolidated statement of operations**

For the Year Ended November 30, 2018

<b>Investment Income:</b>	
Interest	\$ 15,843,346
Less: Foreign taxes withheld	(35,105)
<b>Total Investment Income</b>	<b>15,808,241</b>
<b>Expenses:</b>	
Interest expense (Note 3)	2,966,157
Investment management fee (Note 2)	1,950,595
Legal fees	901,063
Servicing agent fees (Note 2)	319,430
Administration fees (Note 2)	247,594
Trustees fees	117,419
Transfer agent fees	82,207
Fund accounting fees	67,143
Audit and tax fees	61,578
Shareholder reports	37,246
Commodity pool reports	34,500
Stock exchange listing fees	28,390
Custody fees	27,221
Insurance	7,085
Miscellaneous expenses	21,694
<b>Total Expenses</b>	<b>6,869,322</b>
Less: Fee waivers and/or expense reimbursements (Note 2)	(801,398)
<b>Net Expenses</b>	<b>6,067,924</b>
<b>Net Investment Income</b>	<b>9,740,317</b>
<b>Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Swap Contracts, Forward Foreign Currency Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):</b>	
Net Realized Gain (Loss) From:	
Investment transactions	(443,206)
Futures contracts	1,534,255
Swap contracts	390,948
Forward foreign currency contracts	634,208
Foreign currency transactions	(204,302)
<b>Net Realized Gain</b>	<b>1,911,903</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(19,718,766)
Futures contracts	(1,008,583)
Swap contracts	(325,746)
Forward foreign currency contracts	(39,257)
Foreign currencies	(179,994)
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>(21,272,346)</b>
<b>Net Loss on Investments, Futures Contracts, Swap Contracts, Forward Foreign Currency Contracts and Foreign Currency Transactions</b>	<b>(19,360,443)</b>
<b>Decrease in Net Assets From Operations</b>	<b>\$ (9,620,126)</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated statements of changes in net assets**

For the Years Ended November 30,	2018	2017
<b>Operations:</b>		
Net investment income	\$ 9,740,317	\$ 9,837,920
Net realized gain	1,911,903	10,309,251
Change in net unrealized appreciation (depreciation)	(21,272,346)	3,691,793
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>(9,620,126)</i>	<i>23,838,964</i>
<b>Distributions to Shareholders From (Note 1):</b>		
Total distributable earnings <sup>1</sup>	(12,069,268)	(11,704,857)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(12,069,268)</i>	<i>(11,704,857)</i>
<b>Capital Contribution:</b>		
Payment by servicing agent (Note 2)		350,000
<i>Increase (Decrease) in Net Assets</i>	<i>(21,689,394)</i>	<i>12,484,107</i>
<b>Net Assets:</b>		
Beginning of year	381,611,978	369,127,871
<b>End of year<sup>2</sup></b>	<b>\$ 359,922,584</b>	<b>\$ 381,611,978</b>

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

<sup>1</sup> Distributions from net investment income and from realized gains are no longer required to be separately disclosed. See Note 10. For the year ended November 30, 2017, distributions from net investment income were \$11,704,857.

<sup>2</sup> Parenthetical disclosure of undistributed net investment income is no longer required. See Note 10. For the year ended November 30, 2017, end of year net assets included undistributed net investment income of \$2,268,079.

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

**Table of Contents****Consolidated statement of cash flows**

For the Year Ended November 30, 2018

**Increase (Decrease) in Cash:****Cash Provided (Used) by Operating Activities:**

Net decrease in net assets resulting from operations	\$ (9,620,126)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(243,289,967)
Sales of portfolio securities	229,015,029
Net purchases, sales and maturities of short-term investments	(1,954,217)
Net inflation adjustment	(9,190,708)
Net amortization of premium (accretion of discount)	2,733,602
Decrease in receivable from servicing agent	350,000
Increase in receivable for securities sold	(4,193,743)
Increase in interest receivable	(249,014)
Decrease in receivable from broker variation margin on centrally cleared swap contracts	11,835
Increase in prepaid expenses	(2,564)
Increase in payable to broker variation margin on centrally cleared swap contracts	16,157
Increase in payable for securities purchased	5,699,026
Decrease in investment management fee payable	(23,095)
Decrease in service agent fees payable	(64,967)
Decrease in Trustees fee payable	(5,404)
Increase in administration fee payable	2,957
Increase in interest payable	102,091
Increase in accrued expenses	75,015
Decrease in payable to broker variation margin on open futures contracts	(109,548)
Net realized loss on investments	443,206
Change in net unrealized appreciation (depreciation) of investments and forward foreign currency transactions	19,758,023
<b>Net Cash Used by Operating Activities*</b>	<b>(10,496,412)</b>
<b>Cash Flows From Financing Activities:</b>	
Distributions paid on common stock	(12,069,268)
Increase in due to custodian	6,597
Increase in payable for reverse repurchase agreements	20,090,100
<b>Net Cash Provided in Financing Activities</b>	<b>8,027,429</b>
<b>Net Decrease in Cash and Restricted Cash</b>	<b>(2,468,983)</b>
Cash and restricted cash at beginning of year	9,712,863
Cash and restricted cash at end of year	\$ 7,243,880

\* Included in operating expenses is cash of \$2,864,066 paid for interest on borrowings.

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

**Table of Contents**

**Consolidated statement of cash flows (cont d)**

For the Year Ended November 30, 2018

The following table provides a reconciliation of cash and restricted cash reported with the Consolidated Statement of Assets and Liabilities that sums to the total of the such amounts shown on the Consolidated Statement of Cash Flows.

	November 30, 2018
Cash	\$ 1,225,287
Restricted cash	6,018,593
<b>Total cash and restricted cash shown in the Consolidated Statement of Cash Flows</b>	<b>\$ 7,243,880</b>

Restricted cash consists of cash that has been segregated to cover the Fund's collateral or margin obligations under derivative contracts and reverse repurchase agreements. It is separately reported on the Consolidated Statement of Assets and Liabilities as Deposits with brokers.

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

**Table of Contents****Consolidated financial highlights**

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

	2018 <sup>1</sup>	2017 <sup>1</sup>	2016 <sup>1,2</sup>	2015 <sup>1,3</sup>	2014 <sup>1,3</sup>	2013 <sup>1,3</sup>
Net asset value, beginning of year	\$13.09	\$12.66	\$12.47	\$13.21	\$13.14	\$14.73
<b>Income (loss) from operations:</b>						
Net investment income	0.33	0.34 <sup>4</sup>	0.27	0.07	0.29	0.10
Net realized and unrealized gain (loss)	(0.66)	0.48 <sup>4</sup>	0.27	(0.46)	0.20	(1.31)
<i>Total income (loss) from operations</i>	<i>(0.33)</i>	<i>0.82</i>	<i>0.54</i>	<i>(0.39)</i>	<i>0.49</i>	<i>(1.21)</i>
<b>Less distributions from:</b>						
Net investment income	(0.41)	(0.40)	(0.23)	(0.10)	(0.35)	(0.11)
Net realized gains				(0.00) <sup>5</sup>	(0.07)	(0.27)
Return of capital			(0.12)	(0.26)		
<i>Total distributions</i>	<i>(0.41)</i>	<i>(0.40)</i>	<i>(0.35)</i>	<i>(0.35)</i>	<i>(0.42)</i>	<i>(0.38)</i>
Payment by servicing agent		0.01				
Net asset value, end of year	\$12.35	\$13.09	\$12.66	\$12.47	\$13.21	\$13.14
Market price, end of year	\$10.69	\$11.62	\$11.23	\$10.57	\$11.60	\$11.42
<i>Total return, based on NAV<sup>6,7</sup></i>	<i>(2.49)%</i>	<i>6.77%<sup>8</sup></i>	<i>4.28%</i>	<i>(3.00)%</i>	<i>3.68%</i>	<i>(8.29)%</i>
<i>Total return, based on Market Price<sup>9</sup></i>	<i>(4.61)%</i>	<i>7.15%</i>	<i>9.61%</i>	<i>(5.95)%</i>	<i>5.20%</i>	<i>(10.15)%</i>
Net assets, end of year (millions)	\$360	\$382	\$369	\$363	\$385	\$383
<b>Ratios to average net assets:</b>						
Gross expenses	1.83%	1.44%	1.33% <sup>10</sup>	1.10%	0.89%	0.74%
Net expenses	1.62 <sup>11</sup>	1.44	1.33 <sup>10</sup>	1.10	0.89	0.74
Net investment income	2.60	2.63 <sup>4</sup>	2.33 <sup>10</sup>	0.50	2.17	0.72
<b>Portfolio turnover rate</b>	<b>45%</b>	<b>59%</b>	<b>88%</b>	<b>59%</b>	<b>30%</b>	<b>65%</b>

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

<sup>2</sup> For the period January 1, 2016 through November 30, 2016.

<sup>3</sup> For the year ended December 31.

<sup>4</sup> Amount has been revised as described in Note 9 in the Notes to Financials.

<sup>5</sup> Amount represents less than \$0.005 per share.

<sup>6</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>7</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

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<sup>8</sup> The total return includes payment by the servicing agent. Without this payment, the total return would have been 6.69% for the year ended November 30, 2017.

<sup>9</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

<sup>10</sup> Annualized.

<sup>11</sup> Reflects fee waivers.

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

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**Table of Contents**

## Notes to consolidated financial statements

### 1. Organization and significant accounting policies

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

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

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

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

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When

## **Table of Contents**

reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Trustees.

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

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

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

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



**Table of Contents****Notes to consolidated financial statements (cont d)**

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

Level 1 quoted prices in active markets for identical investments

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

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

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

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term investments :				
U.S. Treasury inflation protected securities		\$ 404,325,817		\$ 404,325,817
Corporate bonds & notes		24,799,097		24,799,097
Non-U.S. Treasury inflation protected securities		23,472,808		23,472,808
Collateralized mortgage obligations		21,008,993		21,008,993
Sovereign bonds		16,268,447		16,268,447
Asset-backed securities		12,541,651		12,541,651
U.S. Government & agency obligations		4,514,512		4,514,512
Purchased options	\$ 23,906			23,906
<b>Total long-term investments</b>	<b>23,906</b>	<b>506,931,325</b>		<b>506,955,231</b>
Short-term investments :				
Sovereign bonds		447,319		447,319
Money market funds	11,573,163			11,573,163
<b>Total short-term investments</b>	<b>11,573,163</b>	<b>447,319</b>		<b>12,020,482</b>
<b>Total investments</b>	<b>\$ 11,597,069</b>	<b>\$ 507,378,644</b>		<b>\$ 518,975,713</b>
Other financial instruments:				
Futures contracts	\$ 1,801,126			\$ 1,801,126
Forward foreign currency contracts		\$ 1,233,228		1,233,228
<b>Total other financial instruments</b>	<b>\$ 1,801,126</b>	<b>\$ 1,233,228</b>		<b>\$ 3,034,354</b>
<b>Total</b>	<b>\$ 13,398,195</b>	<b>\$ 508,611,872</b>		<b>\$ 522,010,067</b>

**Table of Contents**

Description	LIABILITIES			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other financial instruments:				
Futures contracts	\$ 3,663,971			\$ 3,663,971
Forward foreign currency contracts		\$ 1,755,051		1,755,051
Centrally cleared credit default swaps on credit indices sell protection			195,514	195,514
<b>Total</b>	<b>\$ 3,663,971</b>	<b>\$ 1,950,565</b>		<b>\$ 5,614,536</b>

See Consolidated Schedule of Investments for additional detailed categorizations.

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

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

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

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

**(d) Forward foreign currency contracts.** The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an

**Table of Contents**

## Notes to consolidated financial statements (cont d)

unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

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

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Consolidated Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

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

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

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

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Consolidated Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are

## **Table of Contents**

recognized as realized gain or loss in the Consolidated Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Consolidated Statement of Operations.

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

As of November 30, 2018, the total notional value of all credit default swaps to sell protection was \$32,170,000. This amount would be offset by the value of the swap's reference entity, upfront premiums received on the swap and any amounts received from the settlement of a credit default swap where the Fund bought protection for the same referenced security/entity.

For average notional amounts of swaps held during the year ended November 30, 2018, see Note 4.

### Credit default swaps

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

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as

**Table of Contents**

## Notes to consolidated financial statements (cont d)

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

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

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

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

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

**(g) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the

## **Table of Contents**

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

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

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

**(j) Cash flow information.** The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be

**Table of Contents**

## Notes to consolidated financial statements (cont d)

reinvested at the discretion of shareholders. These activities are reported in the Consolidated Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Consolidated Statement of Cash Flows.

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

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

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

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

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

Investments in securities that are collateralized by real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages,

## **Table of Contents**

collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

**(m) Foreign investment risks.** The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

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

Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment adviser. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

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

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



**Table of Contents**

## Notes to consolidated financial statements (cont d)

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

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

As of November 30, 2018, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$1,755,051. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties. As of November 30, 2018, the Fund had posted with its counterparties cash and/or securities as collateral to cover the net liability of these derivatives amounting to \$1,120,000, which could be used to reduce the required payment.

At November 30, 2018, the Fund held non-cash collateral from Barclays Bank PLC in the amount of \$94,371 and from JPMorgan Chase & Co. in the amount of \$152,394. These amounts could be used to reduce the Fund's exposure to the counterparties in the event of default.

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

**(p) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Pursuant to its Managed Distribution Policy, the Fund

## **Table of Contents**

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

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

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

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of November 30, 2018, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

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

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

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

The Fund has entered into an Investment Management Agreement with Western Asset Management Company, LLC (formerly, Western Asset Management Company) (Western Asset or the Investment Adviser), which provides for payment of a monthly fee computed at the annual rate of 0.35% of the Fund's average weekly assets. Prior to April 27, 2018, the Investment Management Agreement provided for payment of a monthly fee computed at

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**Table of Contents**

## Notes to consolidated financial statements (cont d)

the annual rate of 0.40% of the Fund's average weekly assets. Average weekly assets means the average weekly value of the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating average weekly assets, liabilities associated with any instrument or transactions used by the Investment Adviser to leverage the Fund's portfolio (whether or not such instruments or transactions are covered as described in the prospectus) are not considered a liability.

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

Western Asset Management Company Pte. Ltd. (Western Asset Singapore), Western Asset Management Company Limited (Western Asset London) and Western Asset Management Company Ltd (Western Asset Japan) and together with Western Asset Singapore and Western Asset London, the Non-U.S. Advisers) are also the Fund's investment advisers. Western Asset Singapore, Western Asset London and Western Asset Japan provide certain advisory services to the Fund relating to currency transactions and investment in non-U.S. denominated securities. Western Asset Singapore, Western Asset London and Western Asset Japan do not receive any compensation from the Fund. At no time since becoming investment advisers with respect to the Fund in 2008 through the end of the reporting period on November 30, 2018 has any of the Non-U.S. Advisers received any compensation from the Fund or Western Asset for services provided with respect to the Fund.

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

Prior to April 27, 2018, LMPFA provided certain administrative and accounting functions and Guggenheim Funds Distributors, Inc. (Guggenheim) or Security Investors, LLC (Security Investors) provided certain shareholder servicing and corporate secretarial and related functions for the Fund. During the portion of the reporting period prior to April 27, 2018, the Fund paid LMPFA a monthly fee at an annual rate of 0.04% of the Fund's average weekly assets, subject to an annual minimum fee of \$225,000. During the portion of the reporting period prior to February 1, 2018, the Fund paid Guggenheim a monthly fee at an annual rate of 0.15% of the Fund's average weekly assets. From February 1, 2018 to April 26, 2018, the Fund's agreement with Security Investors provided for a monthly fee at an annual rate of 0.15% of the Fund's average weekly assets, however Security Investors agreed to waive a portion of its compensation in an amount equal to an annual rate of 0.025% of the Fund's average weekly assets. During the period from February 1, 2018 to April 26, 2018, Security Investors waived \$30,689. Prior to the beginning of the reporting period, Management

**Table of Contents**

informed Guggenheim that Guggenheim may have received payments in excess of a previously agreed upon cap on its compensation. Guggenheim informed the Fund that Guggenheim believed that it had not received any payments in excess of a cap. To settle this matter, pursuant to an agreement between Guggenheim and the Fund, on February 16, 2018 Guggenheim contributed to the Fund \$350,000 of the potential overage. Guggenheim retained the remaining amount of approximately \$700,000 as consideration for services rendered which the Board of Trustees believed Guggenheim earned based on services rendered to the Fund.

Western Asset contractually agreed to waive \$674,370 in management fees beginning on April 27, 2018. During the period from April 27, 2018 through November 30, 2018, Western Asset waived \$674,370 in management fees. LMPFA contractually agreed to waive \$96,339 in administrative services fees beginning on April 27, 2018. During the period from April 27, 2018 through November 30, 2018, LMPFA waived \$96,339 in administrative services fees.

**3. Investments**

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

	Investments	U.S. Government & Agency Obligations
Purchases	\$ 43,357,417	\$ 199,932,550
Sales	21,113,262	207,901,767

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

	Cost/Premiums Paid	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Depreciation
Securities	\$ 532,994,479	\$ 4,742,365	\$ (18,761,131)	\$ (14,018,766)
Swap contracts	565,372		(195,514)	(195,514)
Futures contracts		1,801,126	(3,663,971)	(1,862,845)
Forward foreign currency contracts		1,233,228	(1,755,051)	(521,823)

Transactions in reverse repurchase agreements for the Fund during the year ended November 30, 2018 were as follows:

Average Daily Balance*	Weighted Average Interest Rate*	Maximum Amount Outstanding
\$151,346,171	1.96%	\$166,052,925

\* Averages based on the number of days that Fund had reverse repurchase agreements outstanding. Interest rates on reverse repurchase agreements ranged from 1.44% to 2.57% during the year ended November 30, 2018. Interest expense incurred on reverse repurchase agreements totaled \$2,965,930.

**Table of Contents****Notes to consolidated financial statements (cont d)****4. Derivative instruments and hedging activities**

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

	<b>ASSET DERIVATIVES<sup>1</sup></b>				
	Interest Rate Risk	Foreign Exchange Risk	Commodity Risk	Total	
Purchased options	\$ 23,906			\$ 23,906	
Futures contracts <sup>2</sup>	141,667	\$ 69,240	\$ 1,590,219	1,801,126	
Forward foreign currency contracts		1,233,228		1,233,228	
<b>Total</b>	<b>\$ 165,573</b>	<b>\$ 1,302,468</b>	<b>\$ 1,590,219</b>	<b>\$ 3,058,260</b>	

  

	<b>LIABILITY DERIVATIVES<sup>1</sup></b>				
	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Commodity Risk	Total
Futures contracts <sup>2</sup>	\$ 836,733	\$ 973,642		\$ 1,853,596	\$ 3,663,971
Centrally cleared swap contracts <sup>3</sup>			\$ 195,514		195,514
Forward foreign currency contracts		1,755,051			1,755,051
<b>Total</b>	<b>\$ 836,733</b>	<b>\$ 2,728,693</b>	<b>\$ 195,514</b>	<b>\$ 1,853,596</b>	<b>\$ 5,614,536</b>

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

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

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

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

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

	Foreign				
	Interest Rate Risk	Exchange Risk	Credit Risk	Commodity Risk	Total
Purchased options <sup>1</sup>	\$ (1,058,984)				\$ (1,058,984)
Futures contracts	2,291,679	\$ (2,355,779)		\$ 1,598,355	1,534,255
Swap contracts			\$ 390,948		390,948
Forward foreign currency contracts		634,208			634,208
<b>Total</b>	<b>\$ 1,232,695</b>	<b>\$ (1,721,571)</b>	<b>\$ 390,948</b>	<b>\$ 1,598,355</b>	<b>\$ 1,500,427</b>

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

40 Western Asset Inflation-Linked Income Fund 2018 Annual Report

**Table of Contents**

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

	Interest Rate	Foreign	Credit	Commodity	Total
	Risk	Exchange Risk	Risk	Risk	
Purchased options <sup>1</sup>	\$ (58,404)				\$ (58,404)
Futures contracts	(710,091)	\$ (206,785)		\$ (91,707)	(1,008,583)
Swap contracts			\$ (325,746)		(325,746)
Forward foreign currency contracts		(39,257)			(39,257)
<b>Total</b>	<b>\$ (768,495)</b>	<b>\$ (246,042)</b>	<b>\$ (325,746)</b>	<b>\$ (91,707)</b>	<b>\$ (1,431,990)</b>

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

During the year ended November 30, 2018, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Purchased options	\$ 37,028
Futures contracts (to buy)	245,464,990
Futures contracts (to sell)	112,123,695
Forward foreign currency contracts (to buy)	49,109,043
Forward foreign currency contracts (to sell)	38,236,671
	Average Notional Balance
Credit default swap contracts (to sell protection)	\$ 32,170,000

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

Counterparty	Gross Liabilities		Net Assets (Liabilities) Subject to Master Agreements <sup>1</sup>	Collateral Pledged (Received) <sup>2,3</sup>	Net Amount <sup>4,5</sup>
	Gross Assets Subject to Master Agreements <sup>1</sup>	Subject to Master Agreements <sup>1</sup>			
Barclays Bank PLC	\$ 216,889	\$ (112,732)	\$ 104,157	\$ (94,371)	\$ 9,786
Citibank N.A.	209,439	(1,545,495)	(1,336,056)	1,120,000	(216,056)
Goldman Sachs Group Inc.	52,593	(53,427)	(834)		(834)
JPMorgan Chase & Co.	754,307	(43,397)	710,910	(152,394)	558,516
<b>Total</b>	<b>\$ 1,233,228</b>	<b>\$ (1,755,051)</b>	<b>\$ (521,823)</b>	<b>\$ 873,235</b>	<b>\$ 351,412</b>

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

<sup>2</sup> Gross amounts are not offset in the Consolidated Statement of Assets and Liabilities.

<sup>3</sup> In some instances, the actual collateral received and/or pledged may be more than the amount shown here due to overcollateralization.

<sup>4</sup> Represents the net amount receivable (payable) from (to) the counterparty in the event of default.

<sup>5</sup> Net amount may also include forward foreign currency exchange contracts that are not required to be collateralized.



**Table of Contents****Notes to consolidated financial statements (cont d)****5. Distributions subsequent to November 30, 2018**

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

Record Date	Payable Date	Amount
12/14/2018	12/31/2018	\$ 0.0345
1/18/2019	1/31/2019	\$ 0.0345
2/15/2019	2/28/2019	\$ 0.0345

**6. Stock repurchase program**

On March 2, 2016, the Fund announced that the Fund's Board of Trustees (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the year ended November 30, 2018, the Fund did not repurchase any shares.

**7. Income tax information and distributions to shareholders**

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

	2018	2017
Distributions paid from:		
Ordinary income	\$ 12,069,268	\$ 11,704,857

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

Undistributed ordinary income - net	\$ 1,542,860
Deferred capital losses*	(8,037,800)
Other book/tax temporary differences <sup>(a)</sup>	1,400,924
Unrealized appreciation (depreciation) <sup>(b)</sup>	(16,508,396)
<b>Total accumulated earnings (losses) - net</b>	<b>\$ (21,602,412)</b>

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

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

<sup>(b)</sup> The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales and other book/tax basis adjustments.

**8. Litigation**

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On April 26, 2018 a lawsuit entitled Howard Winston vs. Western Asset Management Company et al. was filed in the United States District Court for the Central District of California

42 Western Asset Inflation-Linked Income Fund 2018 Annual Report

**Table of Contents**

against Western Asset Management Company, LLC (formerly, Western Asset Management Company), Western Asset Management Company Ltd., Western Asset Management Company Pte. Ltd., and Western Asset Management Company Limited (together, the Western Asset Defendants ) and defendant Security Investors, LLC. The lawsuit, ostensibly filed on behalf of the Fund and Western Asset Inflation-Linked Opportunities & Income Fund (together, the Funds ), seeks monetary damages and other relief in connection with claims that the defendants received excessive compensation from the Funds in violation of Section 36(b) of the Investment Company Act of 1940, as amended. On January 16, 2019, the lawsuit was voluntarily dismissed with prejudice as to the Western Asset Defendants. The Western Asset Defendants have informed the Fund that they believe that the dismissal will have no material adverse effect on the ability of any one of them to continue providing services to the Fund or on the Fund itself.

**9. Revision**

Subsequent to the issuance of the consolidated financial statements for the year ended November 30, 2017, the Fund's Investment Adviser identified that the Fund's accretion of discount on an interest-only fixed income security was inaccurate, due to a service provider error, resulting in an overstatement of income and corresponding understatement of unrealized appreciation (depreciation) on investments by \$2,156,540. Accordingly, the Fund has revised its November 30, 2017 Consolidated Schedule of Investments and Consolidated Statement of Assets and Liabilities as well as its Consolidated Statements of Operations, Changes in Net Assets, Cash Flows and Consolidated Financial Highlights for the year ended November 30, 2017. The revision resulted in a reclassification entry between income and unrealized appreciation (depreciation) on investments and has no effect on the Fund's previously reported net assets, net asset value per share or total return, nor did it affect the distributions available or paid to shareholders. The Fund's Investment Adviser concluded that the impact of this error was not material to the previously issued financial statements.

	Previously Reported	Revised
<b>Consolidated Schedule of Investments and Consolidated Statement of Assets and Liabilities as of November 30, 2017</b>		
Cost of investments	\$ 513,279,139	\$ 511,122,599
<b>Consolidated Statement of Assets and Liabilities as of November 30, 2017</b>		
<b>Composition of Net Assets:</b>		
Undistributed net investment income	\$ 4,424,619	\$ 2,268,079
Net unrealized appreciation on investments, futures contracts, swap contracts, forward foreign currency contracts and foreign currencies	\$ 1,972,858	\$ 4,129,398
<b>Consolidated Statement of Operations For the Year Ended November 30, 2017</b>		
<b>Investment Income:</b>		
Interest	\$ 17,376,024	\$ 15,219,484
<b>Change in Net Unrealized Appreciation (Depreciation) From:</b>		
Change in net unrealized appreciation on investments transactions	\$ 3,417,626	\$ 5,574,166

**Table of Contents****Notes to consolidated financial statements (cont d)**

	Previously Reported	Revised
<b>Consolidated Statement of Changes in Net Assets For the Year Ended November 30, 2017</b>		
<b>Operations:</b>		
Net investment income	\$ 11,994,460	\$ 9,837,920
Change in net unrealized appreciation (depreciation)	\$ 1,535,253	\$ 3,691,793
Undistributed net investment income	\$ 4,424,619	\$ 2,268,079
<b>Consolidated Statement of Cash Flows For the Year Ended November 30, 2017</b>		
<b>Cash Provided (Used) by Operating Activities:</b>		
Net amortization of premium (accretion of discount)	\$ 1,336,567	\$ 3,493,107
Change in net unrealized appreciation (depreciation) of investments, OTC swap contracts and forward foreign currency contracts	\$ (3,622,728)	\$ (5,779,268)
<b>Consolidated Financial Highlights For the Year Ended November 30, 2017</b>		
<b>Per Share Operating Data:</b>		
<b>Income (Loss) From Operations:</b>		
Net investment income	\$ 0.41	\$ 0.34
Net realized and unrealized gain (loss)	\$ 0.41	\$ 0.48
<b>Ratios to Average Net Assets:</b>		
Net investment income	3.21%	2.63%

**10. Recent accounting pronouncements**

The Fund has adopted the disclosure provisions of Financial Accounting Standards Board Accounting Standards Update 2016-18 ( ASU 2016-18 ), Statement of Cash Flows (Topic 230) Restricted Cash. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to the issuance of ASU 2016-18, GAAP did not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Upon evaluation, the Fund has concluded that ASU 2016-18 does not materially impact the financial statement amounts; however, as required, additional or enhanced disclosure has been included.

In August 2018, the Securities and Exchange Commission released its Final Rule on Disclosure Update and Simplification (the Final Rule ) which is intended to simplify an issuer s disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the Fund adopted the Final Rule with the most notable impacts being that the Fund is no longer required to present the components of distributable earnings on the Consolidated Statement of Assets and Liabilities or the sources of distributions to shareholders and the amount of undistributed net investment income on the Consolidated Statements of Changes in Net Assets. The tax components of distributable earnings and distributions to shareholders continue to be disclosed within the Notes to Consolidated Financial Statements.

**Table of Contents**

## Report of independent registered public accounting firm

### To the Board of Trustees and Shareholders of Western Asset Inflation-Linked Income Fund

#### Opinion on the financial statements

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Western Asset Inflation-Linked Income Fund and its subsidiary (formerly known as Western Asset/Claymore Inflation-Linked Securities & Income Fund) (the Fund) as of November 30, 2018, the related consolidated statements of operations and cash flows for the year ended November 30, 2018, the consolidated statement of changes in net assets for each of the two years in the period ended November 30, 2018, including the related notes, and the consolidated financial highlights for each of the periods indicated therein (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of November 30, 2018, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period ended November 30, 2018 and the financial highlights for each of the periods indicated therein in conformity with accounting principles generally accepted in the United States of America.

#### Basis for opinion

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

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

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

/s/PricewaterhouseCoopers LLP

Baltimore, Maryland

January 23, 2019

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

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited)

The Independent Trustees considered the following Investment Management Agreements with respect to the Fund (the Agreements ) (i) an Investment Management Agreement between the Fund and Western Asset Management Company, LLC ( Western Asset ), (ii) an Investment Management Agreement between Western Asset and Western Asset Management Company Limited ( WAML ), (iii) an Investment Management Agreement between Western Asset and Western Asset Management Company Pte. Ltd. in Singapore ( Western Singapore ) and (iv) an Investment Management Agreement between Western Asset and Western Asset Management Company Ltd in Japan ( Western Japan, and together with Western Singapore and WAML, the Non-U.S. Advisers, and together with Western Asset, the Advisers ) with respect to the Fund at a meeting held on October 22, 2018. At a meeting held on November 12, 2018, the Independent Trustees reported to the full Board of Trustees their considerations and recommendation with respect to the Agreements, and the Board of Trustees, including a majority of the Independent Trustees, considered and approved renewal of the Agreements.

In considering the Agreements, the Trustees noted that although Western Asset s business is operated through separate legal entities, such as the Non-U.S. Advisers, its business is highly integrated and senior investment personnel at Western Asset have supervisory oversight responsibility over the investment decisions made by the Non-U.S. Advisers. Therefore, in connection with their deliberations noted below, the Trustees primarily focused on the information provided by Western Asset when considering the approval of the Agreements. The Trustees also noted that the Fund does not pay any management fees directly to any of the Non-U.S. Advisers because Western Asset pays the Non-U.S. Advisers for services provided to the Fund out of the management fee Western Asset receives from the Fund.

In arriving at their decision to renew the Agreements, the Trustees met with representatives of Western Asset; reviewed a variety of information prepared by Western Asset and materials provided by counsel to the Independent Trustees; reviewed performance and expense information for peer groups of comparable funds and certain other products available from Western Asset for investments in U.S. TIPS, including separate accounts managed by Western Asset; and requested and reviewed additional information as necessary. These reviews were in addition to information obtained by the Trustees at their regular quarterly meetings with respect to the Fund s performance and other relevant matters, such as information on public trading in the Fund s shares and differences between the Fund s share price and net asset value per share, and related discussions with Western Asset s personnel.

As part of their review, the Trustees examined the Advisers ability to provide high quality investment management services to the Fund. The Trustees considered the investment philosophy and research and decision-making processes of the Advisers; the experience of their key advisory personnel responsible for management of the Fund; the ability of the Advisers to attract and retain capable research and advisory personnel; the entrepreneurial risk to the Advisers associated with sponsoring the Fund; the capability and integrity of the

**Table of Contents**

Advisers' senior management and staff; and the level of skill required to manage the Fund. In addition, the Trustees reviewed the quality of the Advisers' services with respect to regulatory compliance and compliance with the investment policies of the Fund, and conditions that might affect the Advisers' ability to provide high quality services to the Fund in the future, including their business reputations, financial conditions and operational stabilities. Based on the foregoing, the Trustees concluded that the Advisers' investment process, research capabilities and philosophy were well suited to the Fund given its investment objectives and policies, and that the Advisers would be able to meet any reasonably foreseeable obligations under the Agreements.

In reviewing the quality of the services provided to the Fund, the Trustees also reviewed a comparison of the performance of the Fund to the performance of a group of closed-end bond funds and the Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Year Index (the "Index"). The Trustees noted that the Fund had met its primary objective of providing current income to shareholders, and that the performance of the Fund exceeded the performance of its peer group's average and the Index for the one-, three-, five-, and ten-year periods ended June 30, 2018. The Trustees concluded that the Advisers' management of the Fund would continue to be in the best interests of the shareholders.

The Trustees also considered the management fee and total expenses payable by the Fund, including the reductions to the Fund's management fee and other expenses that occurred on April 27, 2018. They reviewed information concerning management fees paid to investment advisers of similarly managed funds as well as fees paid by Western Asset's other clients, including separate accounts managed by Western Asset. The Trustees noted that, when measured as a percentage of net assets (including assets attributable to leverage) for its most recently completed fiscal year, the Fund's advisory fee paid to Western Asset was below the average of the advisory fees paid by funds in its peer group and that the Fund's total expenses exceeded the average of the total expenses of the funds in its peer groups. The Trustees also noted that, when measured as a percentage of net assets (net of leverage) for its most recently completed fiscal year, the Fund's advisory fee paid to Western Asset was below the average of the advisory fees paid by funds in its peer group and that the Fund's total expenses exceeded the average of the total expenses of the funds in its peer group. The Trustees also noted that the foregoing peer group comparisons were based on the most recently completed fiscal years of the Fund and each fund in its peer group, and so those comparisons did not take into account the fee reductions implemented for the Fund on April 27, 2018 subsequent to the completion of its most recently completed fiscal year. The Trustees noted that the Agreements and related new management arrangements for the Fund are expected to decrease aggregate annual advisory, administration and servicing fee rates for the Fund by approximately 16.5 basis points (based on total Fund assets, including those attributable to leverage). The Trustees noted that Western Asset manages one other account with a similar investment strategy to the Fund and it has the same management fee rate as the Fund. The Trustees further noted that Western Asset does not manage open-end funds or separate accounts with similar investment strategies to the

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

Fund, although they noted that the management fee paid by the Fund was higher than the average of the fees paid by clients of Western Asset for certain other accounts ( Other Accounts ). The Trustees noted that the administrative and operational responsibilities undertaken and associated risks incurred by Western Asset with respect to the Fund were also relatively higher and that the Fund's investment strategy included certain asset classes and other features not included in the Other Accounts. In light of the foregoing, the Trustees concluded that the difference in management fees paid by the Fund from those paid to Western Asset with respect to the Other Accounts was reasonable.

The Trustees further evaluated the benefits of the advisory relationship to the Advisers, including, among others, the profitability of the relationship to the Advisers; the direct and indirect benefits that the Advisers may receive from their relationships with the Fund, including the fallout benefits, such as reputational value derived from serving as investment adviser to the Fund; and the affiliation between the Advisers and Legg Mason Partners Funds Advisor, LLC, the Fund's administrator. In that connection, the Trustees concluded that the Advisers' profitability was consistent with levels of profitability that had been determined by courts not to be excessive. The Trustees noted that Western Asset does not have soft dollar arrangements.

Finally, the Trustees considered, in light of the profitability information provided by Western Asset, the extent to which economies of scale would be realized by the Advisers as the assets of the Fund grow. The Trustees concluded that because the Fund is a closed-end fund and does not make a continuous offer of its securities, the Fund's size was relatively fixed and it would be unlikely that the Advisers would realize economies of scale from the Fund's growth.

In their deliberations with respect to these matters, the Independent Trustees were advised by their independent counsel, who is independent, within the meaning of the Securities and Exchange Commission rules regarding the independence of counsel, of the Advisers. The Independent Trustees weighed each of the foregoing matters in light of the advice given to them by their independent counsel as to the law applicable to the review of investment advisory contracts. In arriving at a decision, the Trustees, including the Independent Trustees, did not identify any single matter as all-important or controlling, and the foregoing summary does not detail all the matters considered. The Trustees judged the terms and conditions of the Agreements, including the investment advisory fees, in light of all of the surrounding circumstances.

Based upon their review, the Trustees, including all of the Independent Trustees, determined, in the exercise of their business judgment, that they were satisfied with the quality of investment advisory services being provided by the Advisers; that the fees to be paid to the Advisers under the Agreements were fair and reasonable given the scope and quality of the services rendered by the Advisers; and that approval of the Agreements was in the best interest of the Fund and its shareholders.



**Table of Contents****Additional information** (unaudited)**Information about Trustees and Officers**

The business and affairs of Western Asset Inflation-Linked Income Fund (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Trustees. Except as noted below, the business address of each Trustee is c/o Jane Trust, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Trustees and Officers of the Fund is set forth below.

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

**Independent Trustees****Michael Larson**

Year of birth	1959
Position(s) held with Fund	Trustee and Chairman of the Board of Trustees <sup>2,3,4</sup>
Term of office and length of time served	Term expires in 2019; served since May 2004
Principal occupations during the past 5 years	Chief Investment Officer for William H. Gates III (1994 to present)
Number of portfolios in fund complex overseen by Trustee <sup>1</sup>	2
Other directorships held by Trustee	Republic Services, Inc. (2009 to present); Fomento Economico Mexicano, SAB (2011 to present); EcoLab, Inc. (2012 to present); formerly, Autonation, Inc. (2010 to 2018); Grupo Televisa, S.A.B. (2009 to 2014)

**Ronald A. Nyberg**

Year of birth	1953
Position(s) held with Fund	Trustee <sup>2,3</sup>
Term of office and length of time served	Term expires in 2020; served since August 2003
Principal occupations during the past 5 years	Partner of Momkus LLC (2016 to present); formerly, Partner, Nyberg & Cassiopi, LLC (2000 to 2016), Executive Vice President, General Counsel and Corporate Secretary of Van Kampen Investments (1982 to 1999)
Number of portfolios in fund complex overseen by Trustee <sup>1</sup>	2
Other directorships held by Trustee	Edward-Elmhurst Healthcare System (2012 to present) Guggenheim Funds Group (2003 to present); PPM Funds (2018 to present); formerly, Managed Duration Investment Grade Municipal Fund (2003 to 2016)

**Ronald E. Toupin, Jr.**

Year of birth	1958
Position(s) held with Fund	Trustee <sup>2,3</sup>
Term of office and length of time served	Term expires in 2021; served since August 2003
Principal occupations during the past 5 years	Portfolio Consultant (2010 to present). Member, Governing Council (2013 to present) and Executive Committee (2016 to 2018), Independent Directors Council; Governor, Board of Governors (2018 to present), Investment Company Institute; formerly, Vice President, Manager and Portfolio Manager of Nuveen Asset Management (1998 to 1999); Vice President, Nuveen Investment Advisory Corp. (1992 to 1999); Vice President and Manager, Nuveen Unit Investment Trusts (1991 to 1999); and Assistant Vice President and Portfolio Manager of Nuveen Unit Investment Trusts (1988 to 1999), each of John Nuveen & Co., Inc. (1982 to 1999)
Number of portfolios in fund complex overseen by Trustee <sup>1</sup>	2
Other directorships held by Trustee	Guggenheim Funds Group (2003 to present); formerly, Managed Duration Investment Grade Municipal Fund (2003 to 2016)

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Trustees and Officers**

**Officers<sup>5</sup>**

**Jane Trust**

100 International Drive, 11th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupations during the past 5 years

1962

President<sup>6</sup>

Served since April 2015

Senior Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2018); Managing Director of Legg Mason & Co. (2016 to 2018); Officer and/or Trustee/Director of 146 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2015); President and Chief Executive Officer of LMPFA (since 2015); formerly, Senior Vice President of LMPFA (2015); Director of ClearBridge, LLC (formerly, Legg Mason Capital Management, LLC) (2007 to 2014); Managing Director of Legg Mason Investment Counsel & Trust Co. (2000 to 2007)

**Richard F. Sennett**

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

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupations during the past 5 years

1970

Principal Financial Officer and Treasurer

Served since December 2011

Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)

**Todd F. Kuehl**

100 International Drive, Baltimore, MD 21202

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupations during the past 5 years

1969

Chief Compliance Officer

Served since February 2007

Managing Director of Legg Mason & Co. (since 2011); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Chief Compliance Officer of Legg Mason Private Portfolio Group (prior to 2010); Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002 to 2006)

**Table of Contents**

**Officers cont d**

**Jenna Bailey**

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

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupation(s) during past five years

1978

Identity Theft Prevention Officer

Since 2018

Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2015); Compliance Officer of Legg Mason & Co. (since 2013); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Associate Compliance Officer of Legg Mason & Co. (2011 to 2013)

**Robert I. Frenkel**

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

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2018

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel U.S. Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Thomas C. Mandia**

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

Year of birth

Position(s) held with Fund

Term of office<sup>5</sup> and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2018

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

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Trustees and Officers**

**Officers cont d**

**Jeanne M. Kelly**

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

Year of birth

1951

Position(s) held with Fund

Senior Vice President

Term of office<sup>5</sup> and length of time served

Since 2018

Principal occupation(s) during past five years

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

<sup>1</sup> Each Trustee also serves as a Trustee of Western Asset Inflation-Linked Opportunities & Income Fund, a closed-end investment company, which is considered part of the same Fund Complex as the Fund. The Investment Adviser serves as investment adviser to Western Asset Inflation-Linked Opportunities & Income Fund.

<sup>2</sup> Member of the Audit Committee of the Board of Trustees.

<sup>3</sup> Member of the Governance and Nominating Committee of the Board of Trustees.

<sup>4</sup> Mr. Larson is the chief investment officer for William H. Gates III and in that capacity oversees the investments of Mr. Gates and the investments of the Bill and Melinda Gates Foundation Trust (such combined investments are referred to as the Accounts ). Since 1997, Western Asset has provided discretionary investment advice with respect to one or more Accounts.

<sup>5</sup> Each officer shall hold office until his or her respective successor is chosen and qualified, or in each case until he or she sooner dies, resigns, is removed with or without cause or becomes disqualified.

<sup>6</sup> Ms. Trust served as a Trustee of the Fund until December 19, 2017. During her service as a Trustee, Ms. Trust was an interested person of the Fund (as defined in the 1940 Act) because of her positions with subsidiaries of, and ownership of shares of common stock of, Legg Mason, Inc., the parent company of the Investment Adviser. As of November 30, 2017, Ms. Trust oversaw 137 portfolios in the fund complex and she did not hold other directorships.

**Table of Contents**

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

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

**Table of Contents**

**Other shareholder communications regarding accounting matters (unaudited)**

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

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

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

**Table of Contents**

## Dividend reinvestment plan (unaudited)

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

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

### **Additional information regarding the plan**

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

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

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

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

**Table of Contents**

**Important tax information** (unaudited)

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

Record date:	Monthly	Monthly
Payable date:	December	January 2018 - November 2018
Interest from Federal Obligations	2017 45.36%	57.60%

The law varies in each state as to whether and what percentage of dividend income attributable to Federal obligations is exempt from state income tax. We recommend that you consult with your tax adviser to determine if any portion of the dividends you received is exempt from state income taxes.

Please retain this information for your records.



**Table of Contents**

Western Asset

**Inflation-Linked Income Fund**

**Trustees**

Michael Larson

Ronald A. Nyberg

Ronald E. Toupin, Jr.

**Officers**

Jane Trust

*President*

Richard F. Sennett

*Principal Financial Officer and Treasurer*

Todd F. Kuehl

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Protection Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

Jeanne M. Kelly

*Senior Vice President*

**Western Asset Inflation-Linked Income Fund**

620 Eighth Avenue

49th Floor

New York, NY 10018

**Investment advisers**

## Edgar Filing: WESTERN ASSET INFLATION-LINKED INCOME FUND - Form N-CSR

Western Asset Management Company, LLC\*

Western Asset Management Company Limited

Western Asset Management Company Pte. Ltd.

Western Asset Management Company Ltd

### **Administrator**

Legg Mason Partners Fund Advisor LLC ( LMPFA )

### **Custodian**

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

### **Transfer Agent**

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

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

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

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

### **Independent registered public accounting firm**

PricewaterhouseCoopers LLP

100 East Pratt Street

Baltimore, MD 21202

### **Legal counsel**

Ropes & Gray LLP

1211 Avenue of the Americas

New York, NY 10036

### **New York Stock Exchange Symbol**

WIA

**Table of Contents**

## Legg Mason Funds Privacy and Security Notice

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

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

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

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

Personal information included on applications or other forms;

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

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

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

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

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

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

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

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

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

NOT PART OF THE ANNUAL REPORT

**Table of Contents**

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

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

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

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

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

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

### **The Funds' Security Practices**

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

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

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

Revised April 2018

NOT PART OF THE ANNUAL REPORT

**Table of Contents**

Western Asset Inflation-Linked Income Fund

Western Asset Inflation-Linked Income Fund

620 Eighth Avenue

49th Floor

New York, NY 10018

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

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

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

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

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

**WASX013148 1/19 SR18-3528**

**Table of Contents**

**ITEM 2. CODE OF ETHICS.**

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

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

The Audit Committee of the Registrant's Board of Trustees is comprised solely of Trustees who are independent (as such term has been defined by the Securities and Exchange Commission (SEC) in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002 (the Regulations)). In addition, the Board of Trustees of the Registrant has determined that Mr. Ronald E. Toupin, Jr. qualifies as an audit committee financial expert (as such term has been defined in the Regulations) based on its review of his pertinent experience, knowledge and education.

(Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as amended, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification. The designation or identification of a person as an audit committee financial expert does not affect the duties, obligations or liability of any other member of the audit committee or Board of Trustees.)

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

(a) **Audit Fees.** The aggregate fees billed in the previous fiscal years ending November 30, 2017 and November 30, 2018 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$42,019 in November 30, 2017 and \$25,734 in November 30, 2018.

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

(c) **Tax Fees.** The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$6,623 in November 30, 2017 and \$0 in November 30, 2018. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

**Table of Contents**

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

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

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

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

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

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

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



**Table of Contents**

engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

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

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset Inflation-Linked Income Fund, LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset Inflation-Linked Income Fund during the reporting period were \$271,895 in November 30, 2017 and \$678,000 in November 30, 2018.

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

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

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

Michael Larson

Ronald A. Nyberg

Ronald E. Toupin, Jr.

b) Not applicable

**ITEM 6. SCHEDULE OF INVESTMENTS.**

Included herein under Item 1.

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

**Proxy Voting Guidelines and Procedures**

The Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund's portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio

## **Table of Contents**

securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 1-800-345-7999, (2) on the fund's website at <http://www.guggenheimfunds.com/wiw> and (3) on the SEC's website at <http://www.sec.gov>.

## **Background**

Western Asset Management Company ( WA ), Western Asset Management Company Limited ( WAML ), Western Asset Management Company Ltd ( WAMCL ) and Western Asset Management Company Pte. Ltd. ( WAMC ) (together Western Asset ) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA, WAML, WAMCL and WAMC may so consult and agree with each other) regarding the voting of any securities owned by its clients.

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

## **Procedures**

### **Responsibility and Oversight**

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

### **Client Authority**

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

### **Proxy Gathering**

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if

Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

## Table of Contents

### Proxy Voting

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

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

### Timing

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

### Recordkeeping

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

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
- e. A proxy log including:

1. Issuer name;
2. Exchange ticker symbol of the issuer's shares to be voted;
3. Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
4. A brief identification of the matter voted on;
5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
6. Whether a vote was cast on the matter;

## Table of Contents

7. A record of how the vote was cast; and

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

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

## Disclosure

Part II of the WA Form ADV, the WAML Form ADV, the WAMC Form ADV and the WAMCL Form ADV each, contain a description of Western Asset's proxy policies. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

## Conflicts of Interest

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

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

## **Voting Guidelines**

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

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

### **I. Board Approved Proposals**

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

1. Matters relating to the Board of Directors

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

- a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.
- b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

## **Table of Contents**

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

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

### **2. Matters relating to Executive Compensation**

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

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

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

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

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

### **3. Matters relating to Capitalization**

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

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

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

c. Western Asset votes for proposals authorizing share repurchase programs.

### **4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions**

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

### **5. Matters relating to Anti-Takeover Measures**

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

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

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



6. Other Business Matters

## **Table of Contents**

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

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

## II. Shareholder Proposals

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

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

## III. Voting Shares of Investment Companies

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

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

## IV. Voting Shares of Foreign Issuers

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

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

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

**Table of Contents**

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

**Retirement Accounts**

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

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

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

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
S. Kenneth Leech Western Asset 385 East Colorado Blvd. Pasadena, CA 91101		Responsible for the day-to-day management with other members of the Fund's portfolio management team; Chief Investment Officer of Western Asset from 1998 to 2008 and since 2014; Senior Advisor/Chief Investment Officer Emeritus of Western Asset from 2008-2013; Co- Chief Investment Officer of Western Asset from 2013-2014.
Michael C. Buchanan Western Asset 385 East Colorado Blvd. Pasadena, CA 91101		Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset since 2014; portfolio manager at Western Asset 2005-2014.

Frederick Marki	Co-portfolio manager of the fund since 2016; portfolio manager at Western Asset for more than five years
Western Asset	
385 East Colorado Blvd.	
Pasadena, CA	
Chia-Liang Lian	Co-portfolio manager of the fund since 2016; Co-Head of Emerging Markets Debt, portfolio manager and research analyst at Western Asset since 2011; Head of Emerging Asia Portfolio Management at Pacific Investment Management Company from 2005 to 2011
Western Asset	
385 East Colorado Blvd.	
Pasadena, CA	

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

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

**Other Accounts Managed by Portfolio Managers**

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio	Registered	Other Pooled	
	Investment Companies	Investment Vehicles	Other Accounts
S. Kenneth Leech	105 registered investment companies with \$159.0 billion in total assets under management	261 Other pooled investment vehicles with \$77.6 billion in assets under management <sup>1</sup>	592 Other accounts with \$187.4 billion in total assets under management <sup>2</sup>
Michael C. Buchanan	31 registered investment companies with \$16.0 billion in total assets under management	62 Other pooled investment vehicles with \$19.8 billion in assets under management <sup>3</sup>	171 Other accounts with \$63.0 billion in total assets under management <sup>4</sup>
Chia-Liang Lian	13 registered investment companies with \$7.5 billion in total assets under management	28 Other pooled investment vehicles with \$4.5 billion in assets under management <sup>5</sup>	67 Other accounts with \$7.0 billion in total assets under management <sup>6</sup>
Frederick Marki	17 registered investment companies with \$48.4 billion in total assets under management	25 Other pooled investment vehicles with \$14.4 billion in assets under management	181 Other accounts with \$57.1 billion in total assets under management <sup>6</sup>

1 Includes 6 accounts managed, totaling \$1.4 billion, for which advisory fee is performance based.

2 Includes 29 accounts managed, totaling \$12.2 billion, for which advisory fee is performance based.

3 Includes 3 accounts managed, totaling \$0.8 billion, for which advisory fee is performance based.

4 Includes 11 accounts managed, totaling \$4.4 billion, for which advisory fee is performance based.

5 Includes 1 account managed, totaling \$0.1 billion, for which advisory fee is performance based.

6 Includes 4 accounts managed, totaling \$0.6 billion, for which advisory fee is performance based.

7 Includes 9 accounts managed, totaling \$6.1 billion, for which advisory fee is performance based.

*The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Leech is involved in the management of all the Firm's portfolios, but he is not solely responsible for particular portfolios. Western Asset's investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. He is responsible for overseeing*

*implementation of Western Asset's overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.*

## **Table of Contents**

### **(a)(3): Portfolio Manager Compensation**

With respect to the compensation of the portfolio managers, Western Asset's compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser's employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional's job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager's investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund's Prospectus to which the fund's average annual total returns are compared or, if none, the benchmark set forth in the fund's annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager's pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser's business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

## **Potential Conflicts of Interest**

### *Conflicts of Interest*

The manager, subadvisers and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadvisers and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Limited Investment Opportunities; Aggregation of Orders.* If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund's ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple accounts for purpose of



execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, a subadviser's trade allocation policies may result in the fund's orders not being fully executed or being delayed in execution.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may

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**Table of Contents**

affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

*Cross Trades.* Portfolio managers may manage funds that engage in cross trades, where one of the manager's funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

*Selection of Broker/Dealers.* Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services. These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager's funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

*Variation in Financial and Other Benefits.* A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager's management fee and/or a portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager's or the manager's or a subadviser's desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager's conflicts of interest with respect to the fund may be more acute.

*Related Business Opportunities.* The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

**(a)(4): Portfolio Manager Securities Ownership**

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of November 30, 2018.

	<b>Dollar Range of Portfolio Securities Beneficially Owned</b>
<b>Portfolio Manager(s)</b>	
S. Kenneth Leech	A
Michael C. Buchanan	A
Frederick Marki	A
Chiai-Liang Lian	A

**Table of Contents**

Dollar Range ownership is as follows:

A: none

B: \$1 - \$10,000

C: 10,001 - \$50,000

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

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

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

G: over \$1 million

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

Not applicable.

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

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item 10.

**ITEM 11. CONTROLS AND PROCEDURES.**

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

ITEM 12. EXHIBITS.

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

Exhibit 99.CODE ETH

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

Exhibit 99.CERT

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

Exhibit 99.906CERT

**Table of Contents**

SIGNATURES

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

**Western Asset Inflation-Linked Income Fund**

By: /s/ Jane Trust  
Jane Trust  
President

Date: January 25, 2019

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

By: /s/ Jane Trust  
Jane Trust  
President

Date: January 25, 2019

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

Date: January 25, 2019