

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Form N-CSR

November 30, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

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

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

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

**620 Eighth Avenue, 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: September 30**

**Date of reporting period: September 30, 2017**

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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Annual Report

September 30, 2017

WESTERN ASSET

HIGH INCOME

OPPORTUNITY FUND INC. (HIO)

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

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## Fund objectives

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

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

## Letter from the chairman

### Dear Shareholder,

We are pleased to provide the annual report of Western Asset High Income Opportunity Fund Inc. for the twelve-month reporting period ended September 30, 2017. 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.

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

Chairman, President and Chief Executive Officer

October 31, 2017

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## Investment commentary

### Economic review

The pace of U.S. economic activity fluctuated during the twelve months ended September 30, 2017 (the reporting period). Looking back, the U.S. Department of Commerce reported that third quarter 2016 U.S. gross domestic product (GDP) growth was revised to 2.8%. GDP growth then decelerated to 1.8% and 1.2%, as revised, for the fourth quarter of 2016 and the first quarter of 2017, respectively. Second quarter 2017 GDP growth then accelerated to 3.1%, the strongest reading in two years. Finally, the U.S. Department of Commerce's initial estimate for third quarter 2017 GDP growth released after the reporting period ended was 3.0%. Slightly slower growth was attributed to a number of factors, including decelerations in personal consumption expenditures, in nonresidential fixed investment and in exports that were partly offset by an acceleration in private inventory investment and a downturn in imports.

Job growth in the U.S. was solid overall and a tailwind for the economy during the reporting period. When the reporting period ended on September 30, 2017, the unemployment rate was 4.2%, as reported by the U.S. Department of Labor. This represented the lowest unemployment rate since February 2001. However, the percentage of longer-term unemployed ticked up over the reporting period. In September 2017, 25.5% of Americans looking for a job had been out of work for more than six months, versus 25.2% when the period began.

Looking back, after an extended period of maintaining the federal funds rate<sup>ii</sup> at a historically low range between zero and 0.25%, the Federal Reserve Board (the Fed<sup>i</sup>) increased the rate at its meeting on December 16, 2015. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. The Fed then kept rates on hold at each meeting prior to its meeting on December 14, 2016, at which time, the Fed raised rates to a range between 0.50% and 0.75%.

After holding rates steady at its meeting that concluded on February 1, 2017, the Fed raised rates to a range between 0.75% and 1.00% at its meeting that ended on March 15, 2017. At its meeting that concluded on June 14, 2017, the Fed raised rates to a range between 1.00% and 1.25%. At its meeting that concluded on July 26, 2017, the Fed kept rates on hold, as expected. Finally, at its meeting that concluded on September 20, 2017, the Fed again kept rates on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program."

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

October 31, 2017

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

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Investment commentary (cont d)

<sup>i</sup> Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.

<sup>ii</sup> 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.

<sup>iii</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.

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# Fund overview

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

**A.** The Fund seeks high current income. Capital appreciation is a secondary objective. In seeking to fulfill its investment objectives, the Fund invests, under normal market conditions, at least 80% of its net assets in high-yield securities and up to 20% in common stock equivalents, including options, warrants and rights.

We employ an actively managed approach that is risk-aware and incorporates top-down macroeconomic views with industry sector insights and bottom-up credit research to derive the general framework for the Fund's predominantly non-investment grade credit mandate. This framework provides the foundation for how the portfolio is positioned with respect to risk (aggressive, neutral, conservative), as well as sector overweights and underweights.

Risk and weightings are reviewed on a regular basis. Our bottom-up process provides the basis for populating the targeted industry weightings through individual credit selection. Analysts work closely with investment professionals to determine which securities provide the best risk/reward relationship within their respective sectors. The research team focuses on key fundamental measures such as leverage, cash flow adequacy, liquidity, amortization schedule, underlying asset value and management integrity/track record.

At Western Asset Management Company (Western Asset), the Fund's subadviser, 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 and Christopher F. Kilpatrick.

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

**A.** Most spread sectors (non-Treasuries) posted positive returns, but generated mixed results versus equal-duration<sup>1</sup> Treasuries over the twelve-month reporting period ended September 30, 2017. The fixed income market was impacted by a number of factors during the reporting period, including shifting expectations for economic growth, uncertainties related to future Federal Reserve Board (the Fed's) monetary policy and several geopolitical issues.

Both short- and long-term Treasury yields moved higher during the reporting period as a whole. The yield for the two-year Treasury note began the reporting period at 0.77% (the low for the period) and ended at 1.47% (equaling the high for the period). The yield for the ten-year Treasury was 1.60% at the beginning of the reporting period (the low for the period). The peak of 2.62% occurred on March 13, 2017, and ended the period at 2.33%.

The global credit markets also generated strong results for the twelve months ended September 30, 2017. Credit spreads narrowed as corporate profits often exceeded

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## Fund overview (cont d)

expectations, defaults remained low and fundamentals were generally strong. In addition, demand was robust overall as investors looked to generate incremental yields in the low interest rate environment.

All told, the Bloomberg Barclays U.S. Aggregate Index<sup>iii</sup> gained 0.07% for the twelve months ended September 30, 2017. For comparison purposes, riskier fixed-income securities, including the high-yield bond market, produced stronger results. Over the Fund's fiscal year, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index (the Index) returned 8.87%. Lower quality issuers outperformed, with the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index Caa Component returning 14.40% over the same timeframe.

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

A. A number of adjustments were made to the Fund's portfolio during the reporting period. We reduced the Fund's overall risk exposure given the strong performance of the high-yield market and tighter spreads. This included paring the Fund's overweight to securities rated CCC. In addition to outright reducing exposure, a handful of the Fund's larger CCC-rated issuers were upgraded to single B during the reporting period. We also reduced the Fund's underweight to BB-rated bonds. We added attractively valued bonds in the primary market as well as rising star issuers that our credit team believes have a chance of being upgraded to investment grade.

Elsewhere, we increased the Fund's allocation to emerging markets debt given strengthening fundamentals and attractive valuations in countries such as Argentina and Brazil. We maintained the Fund's overweight to the Energy sector, remained cautious on big box retail and were extremely selective in the Health Care sector. The Fund ended the reporting period with an overweight to the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index by about a half of year duration at roughly 4.35 years.

Currency forwards, which were used to manage the Fund's currency exposure, did not meaningfully impact results.

### Performance review

For the twelve months ended September 30, 2017, Western Asset High Income Opportunity Fund Inc. returned 8.81% based on its net asset value (NAV)<sup>i</sup> and 9.28% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index, returned 8.87% for the same period. The Lipper High Yield Closed-End Funds Category Average<sup>vi</sup> returned 10.24% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.37 per share, which included a return of capital of \$0.01 per share\*. The performance table shows the Fund's twelve-month total return based on its NAV and market

\*For the tax character of distributions paid during the fiscal year ended September 30, 2017, please refer to page 46 of this report.

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price as of September 30, 2017. **Past performance is no guarantee of future results.**

**Performance Snapshot as of September 30, 2017**

	12-Month Total Return**
Price Per Share	
\$5.65 (NAV)	8.81%
\$5.13 (Market Price)	9.28%

**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, including returns of capital, at NAV.**

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

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

**A.** The largest contributor to the Fund's relative performance during the reporting period was our issuer selection. Within the Communications sector, an overweight to Sprint (Sprint Communications, Inc. and Sprint Corp.) was beneficial to results. Sprint's management team made improvements both from an operational and financial standpoint, its debt was upgraded by Moody's in January 2017, and mergers and acquisitions (M&A) speculation continued to push Sprint bonds higher. In addition, its parent company, Softbank, reiterated its commitment to Sprint. Additional individual holdings that were positive for returns included overweight positions in Energy sector companies, Sanchez Energy Corp., Petrobras Global Finance, and Chesapeake Energy Corp. Prior to the reporting period, we had a backdrop of weakening oil prices and all of these companies were downgraded by Moody's. However, they subsequently improved their balance sheets and benefited from recovering oil prices. As a result, several of these companies have been recently upgraded. Brazilian metals and mining company, Vale Overseas, was also supported by a better backdrop for commodity prices, a strengthening balance sheet and an improving trajectory for Brazil's economy. The Fund's overweight to Vale contributed to results. Away from commodities, an overweight to Valeant Pharmaceuticals (VRX Escrow Corp., VPII Escrow Corp.) was beneficial. The company delivered on its promises to sell assets, reduce debt and stabilize fundamental results during the reporting period.

Our credit biases contributed to results as well. In particular, an overweight to lower quality CCC-rated credits and an underweight to BB-rated credits was rewarded given the significant outperformance of lower rated securities during the reporting period.

From a sector perspective, the previously mentioned overweight to the Energy sector was additive for results as it was the top performing sector during the reporting period. An overweight to banks and investment-grade credit was also beneficial, as was the Fund's allocation to the emerging markets debt asset class.

<sup>1</sup> Communications consists of the following industries: Media - Cable, Media - Non-Cable and Telecommunications.

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### Fund overview (cont d)

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

A. A handful of positions detracted from relative results. The largest detractor from the Fund's performance was its allocation to bank loans (roughly 3.5% of the Fund). Bank loans lagged the riskier unsecured bond market. However, these positions helped to reduce the Fund's overall volatility, as well as provided exposure to the front-end of the yield curve<sup>viii</sup>.

A number of the Fund's high-yield corporate bonds detracted from results, including overweight positions in communications firm Windstream Communications (Windstream Services LLC), energy consulting company Sierra Hamilton LLC and pet supplies retailer PetSmart, Inc. Windstream Communications was negatively impacted by lackluster fundamental results and management's decision to reduce its dividend and redirect free cash flow to a new stock buyback program. Lenders felt Windstream needed to focus on reducing debt and stabilizing results rather than returning capital to shareholders. Debt for pet servicer and retailer PetSmart underperformed during the reporting period. The company primarily used debt to purchase an online competitor Chewy.com. While we successfully navigated the Energy sector as a whole, a small overweight to unsecured bonds of Sierra Hamilton LLC/Sierra Hamilton Finance, Inc., an energy consulting company, was negative for performance as it defaulted on its debt obligation during the reporting period.

#### Looking for additional information?

The Fund is traded under the symbol **HIO** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XHIOX** on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press 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 High Income Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

October 20, 2017

*RISKS: The Fund is a diversified closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Diversification does not*

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

Portfolio holdings and breakdowns are as of September 30, 2017 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 10 through 26 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 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 September 30, 2017 were: Consumer Discretionary (19.3%), Energy (15.6%), Financials (12.6%), Telecommunication Services (11.9%) and Health Care (7.4%). 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.

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**Fund overview (cont d)**

- <sup>i</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>ii</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>iii</sup> The Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
  
- <sup>iv</sup> The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Bloomberg Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
  
- <sup>v</sup> The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Caa Component is an index of the 2% Issuer Cap component of the broader Bloomberg Barclays U.S. Corporate High Yield Index and is comprised of the Caa-rated securities included in this index.
  
- <sup>vi</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>vii</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended September 30, 2017, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category.
  
- <sup>viii</sup> The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

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**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 September 30, 2017 and September 30, 2016 and does not include derivatives, such as forward foreign currency contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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**Spread duration** (unaudited)

**Economic exposure** September 30, 2017

**Total Spread Duration**

HIO 4.08 years  
 Benchmark 3.79 years

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

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

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**Effective duration** (unaudited)

**Interest rate exposure** September 30, 2017

**Total Effective Duration**

HIO 4.35 years  
 Benchmark 3.78 years

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

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

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September 30, 2017

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

Security	Rate	Maturity Date	Face Amount	Value
<b>Corporate Bonds &amp; Notes</b> 83.2%				
<b>Consumer Discretionary</b> 17.6%				
<i>Auto Components</i> 1.3%				
Adient Global Holdings Ltd., Senior Notes	4.875%	8/15/26	4,290,000	\$ 4,407,975 (a)
Delphi Jersey Holdings PLC, Senior Notes	5.000%	10/1/25	1,090,000	1,111,800 (a)
IHO Verwaltungs GmbH, Senior Secured Bonds (4.750% Cash or 5.500% PIK)	4.750%	9/15/26	1,310,000	1,337,838 (a)(b)
ZF North America Capital Inc., Senior Notes	4.750%	4/29/25	2,730,000	2,890,387 (a)
<i>Total Auto Components</i>				<i>9,748,000</i>
<i>Diversified Consumer Services</i> 0.9%				
Prime Security Services Borrower LLC/Prime Finance Inc., Secured Notes	9.250%	5/15/23	3,630,000	4,014,998 (a)
Service Corp. International, Senior Notes	7.500%	4/1/27	1,975,000	2,374,937
<i>Total Diversified Consumer Services</i>				<i>6,389,935</i>
<i>Hotels, Restaurants &amp; Leisure</i> 4.6%				
1011778 BC ULC/New Red Finance Inc., Secured Notes	5.000%	10/15/25	1,790,000	1,821,146 (a)(c)
1011778 BC ULC/New Red Finance Inc., Secured Notes	5.000%	10/15/25	1,050,000	1,068,270 (a)
Aramark Services Inc., Senior Notes	5.000%	4/1/25	1,190,000	1,268,838 (a)
Bossier Casino Venture Holdco Inc., Senior Secured Bonds (14.000% PIK)	14.000%	2/9/18	1,913,619	1,913,619 (a)(b)(d)(e)
Brinker International Inc., Senior Notes	5.000%	10/1/24	3,130,000	3,110,437 (a)
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	1,540,000	1,643,950
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	1,280,000	1,366,400 (a)
CCM Merger Inc., Senior Notes	6.000%	3/15/22	775,000	803,187 (a)
CEC Entertainment Inc., Senior Notes	8.000%	2/15/22	1,600,000	1,668,000
Fontainebleau Las Vegas Holdings LLC, Senior Secured Notes	10.250%	6/15/15	715,000	72 *(a)(f)
GLP Capital LP/GLP Financing II Inc., Senior Notes	5.375%	4/15/26	1,840,000	2,012,500
Golden Nugget Inc., Senior Notes	8.750%	10/1/25	490,000	499,800 (a)
Hilton Worldwide Finance LLC/Hilton Worldwide Finance Corp., Senior Notes	4.625%	4/1/25	2,170,000	2,240,525
Hilton Worldwide Finance LLC/Hilton Worldwide Finance Corp., Senior Notes	4.875%	4/1/27	1,530,000	1,610,325
Jack Ohio Finance LLC/Jack Ohio Finance 1 Corp., Senior Secured Notes	6.750%	11/15/21	1,360,000	1,429,700 (a)
Scientific Games International Inc., Senior Secured Notes	7.000%	1/1/22	1,310,000	1,393,512 (a)
Silversea Cruise Finance Ltd., Senior Secured Notes	7.250%	2/1/25	1,598,000	1,717,850 (a)
Sugarhouse HSP Gaming Prop Mezz LP/Sugarhouse HSP Gaming Finance Corp., Senior Secured Notes	5.875%	5/15/25	820,000	807,700 (a)
Viking Cruises Ltd., Senior Notes	8.500%	10/15/22	3,920,000	4,100,908 (a)
Viking Cruises Ltd., Senior Notes	5.875%	9/15/27	3,180,000	3,198,921 (a)
<i>Total Hotels, Restaurants &amp; Leisure</i>				<i>33,675,660</i>

See Notes to Financial Statements.

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Security	Rate	Maturity Date	Face Amount	Value
<i>Household Durables 0.6%</i>				
Beazer Homes USA Inc., Senior Notes	5.875%	10/15/27	1,730,000	\$ 1,734,325 <sup>(a)(c)</sup>
Weekley Homes LLC/Weekley Finance Corp., Senior Notes	6.625%	8/15/25	2,400,000	2,334,000 <sup>(a)</sup>
<i>Total Household Durables</i>				<i>4,068,325</i>
<i>Leisure Products 0.2%</i>				
Gibson Brands Inc., Senior Secured Notes	8.875%	8/1/18	2,010,000	1,628,100 <sup>(a)</sup>
<i>Media 7.5%</i>				
AMC Entertainment Holdings Inc., Senior Subordinated Notes	6.125%	5/15/27	270,000	267,975
Carmike Cinemas Inc., Secured Notes	6.000%	6/15/23	840,000	888,300 <sup>(a)</sup>
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	5.750%	2/15/26	1,970,000	2,070,470 <sup>(a)</sup>
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	4.908%	7/23/25	6,850,000	7,334,352
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	4.200%	3/15/28	180,000	182,519 <sup>(a)</sup>
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	6.484%	10/23/45	1,220,000	1,436,861
DISH DBS Corp., Senior Notes	5.875%	7/15/22	1,100,000	1,171,500
DISH DBS Corp., Senior Notes	5.875%	11/15/24	750,000	788,906
DISH DBS Corp., Senior Notes	7.750%	7/1/26	5,150,000	5,925,951
EW Scripps Co., Senior Notes	5.125%	5/15/25	1,210,000	1,237,225 <sup>(a)</sup>
iHeartCommunications Inc., Senior Notes (12.000% Cash, 2.000% PIK)	14.000%	2/1/21	2,584,612	374,769 <sup>(b)</sup>
Lions Gate Entertainment Corp., Senior Notes	5.875%	11/1/24	720,000	759,600 <sup>(a)</sup>
SFR Group SA, Senior Secured Bonds	6.250%	5/15/24	5,410,000	5,733,248 <sup>(a)</sup>
SFR Group SA, Senior Secured Notes	7.375%	5/1/26	7,810,000	8,464,087 <sup>(a)</sup>
Time Warner Cable LLC, Senior Notes	8.750%	2/14/19	2,311,000	2,511,122
Time Warner Cable LLC, Senior Notes	8.250%	4/1/19	1,039,000	1,130,076
Viacom Inc., Senior Notes	4.375%	3/15/43	1,260,000	1,089,381
Virgin Media Finance PLC, Senior Notes	6.375%	4/15/23	4,400,000	4,614,500 <sup>(a)</sup>
Virgin Media Finance PLC, Senior Notes	6.000%	10/15/24	3,030,000	3,196,650 <sup>(a)</sup>
Virgin Media Secured Finance PLC, Senior Secured Bonds	5.500%	1/15/25	1,400,000	1,477,000 <sup>(a)</sup>
Ziggo Secured Finance BV, Senior Secured Notes	5.500%	1/15/27	4,190,000	4,303,926 <sup>(a)</sup>
<i>Total Media</i>				<i>54,958,418</i>
<i>Specialty Retail 2.1%</i>				
American Greetings Corp., Senior Notes	7.875%	2/15/25	2,350,000	2,555,625 <sup>(a)</sup>
GameStop Corp., Senior Notes	6.750%	3/15/21	720,000	752,400 <sup>(a)</sup>
Guitar Center Inc., Senior Secured Bonds	6.500%	4/15/19	5,190,000	4,735,875 <sup>(a)</sup>
Hertz Corp., Senior Notes	5.875%	10/15/20	2,030,000	2,024,925
Hot Topic Inc., Senior Secured Notes	9.250%	6/15/21	1,170,000	993,038 <sup>(a)</sup>
Lithia Motors Inc., Senior Notes	5.250%	8/1/25	1,030,000	1,072,487 <sup>(a)</sup>

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September 30, 2017

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

	Rate	Maturity Date	Face Amount	Value
Security				
<i>Specialty Retail continued</i>				
PetSmart Inc., Senior Notes	8.875%	6/1/25	1,550,000	\$ 1,236,900 (a)
ServiceMaster Co., LLC, Senior Notes	5.125%	11/15/24	1,960,000	2,018,800 (a)
<i>Total Specialty Retail</i>				<i>15,390,050</i>
<i>Textiles, Apparel &amp; Luxury Goods 0.4%</i>				
Hanesbrands Inc., Senior Notes	4.875%	5/15/26	2,700,000	2,818,125 (a)
<b>Total Consumer Discretionary</b>				<b>128,676,613</b>
<b>Consumer Staples 2.9%</b>				
<i>Beverages 0.4%</i>				
Carolina Beverage Group LLC/Carolina Beverage Group Finance Inc., Secured Notes	10.625%	8/1/18	1,500,000	1,520,625 (a)
DS Services of America Inc., Secured Notes	10.000%	9/1/21	1,357,000	1,438,420 (a)
<i>Total Beverages</i>				<i>2,959,045</i>
<i>Food &amp; Staples Retailing 0.3%</i>				
Beverages & More Inc., Senior Secured Notes	11.500%	6/15/22	1,930,000	1,814,200 (a)
<i>Food Products 1.2%</i>				
Lamb Weston Holdings Inc., Senior Notes	4.625%	11/1/24	1,400,000	1,466,500 (a)
Lamb Weston Holdings Inc., Senior Notes	4.875%	11/1/26	670,000	705,175 (a)
Marfrig Holding Europe BV, Senior Notes	8.000%	6/8/23	2,000,000	2,076,400 (a)
Pilgrim s Pride Corp., Senior Notes	5.875%	9/30/27	1,140,000	1,167,075 (a)
Simmons Foods Inc., Secured Notes	7.875%	10/1/21	3,380,000	3,592,517 (a)
<i>Total Food Products</i>				<i>9,007,667</i>
<i>Household Products 0.6%</i>				
Central Garden & Pet Co., Senior Notes	6.125%	11/15/23	1,080,000	1,155,600
Spectrum Brands Inc., Senior Notes	6.625%	11/15/22	940,000	982,300
Spectrum Brands Inc., Senior Notes	6.125%	12/15/24	650,000	699,562
Spectrum Brands Inc., Senior Notes	5.750%	7/15/25	1,220,000	1,305,400
<i>Total Household Products</i>				<i>4,142,862</i>
<i>Tobacco 0.4%</i>				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	2,910,000	2,571,713
Alliance One International Inc., Senior Secured Notes	8.500%	4/15/21	510,000	532,950 (a)
<i>Total Tobacco</i>				<i>3,104,663</i>
<b>Total Consumer Staples</b>				<b>21,028,437</b>
<b>Energy 13.6%</b>				
<i>Energy Equipment &amp; Services 0.8%</i>				
KCA Deutag UK Finance PLC, Senior Secured Notes	9.875%	4/1/22	2,320,000	2,418,600 (a)
Pride International Inc., Senior Notes	7.875%	8/15/40	1,000,000	855,000
Transocean Inc., Senior Notes	9.000%	7/15/23	830,000	898,475 (a)
Transocean Inc., Senior Notes	6.800%	3/15/38	1,770,000	1,451,400
Trinidad Drilling Ltd., Senior Notes	6.625%	2/15/25	270,000	253,800 (a)
<i>Total Energy Equipment &amp; Services</i>				<i>5,877,275</i>

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Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels 12.8%</i>				
Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	6.125%	10/15/21	230,000	\$ 237,475
Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	6.375%	5/1/24	650,000	708,500
Andeavor Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	5.250%	1/15/25	1,530,000	1,644,750
Berry Petroleum Co. Escrow			1,230,000	0 *(d)(e)(g)
Berry Petroleum Co. Escrow			3,484,000	0 *(d)(e)(g)
Blue Racer Midstream LLC/Blue Racer Finance Corp., Senior Notes	6.125%	11/15/22	2,840,000	2,960,700 (a)
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Secured Notes	11.500%	1/15/21	1,740,000	2,024,925 (a)
Cheniere Corpus Christi Holdings LLC, Senior Secured Notes	5.875%	3/31/25	2,120,000	2,289,600
Chesapeake Energy Corp., Senior Notes	6.875%	11/15/20	5,200,000	5,382,000
Chesapeake Energy Corp., Senior Notes	5.375%	6/15/21	1,655,000	1,584,662
Chesapeake Energy Corp., Senior Notes	5.750%	3/15/23	600,000	556,500
Chesapeake Energy Corp., Senior Notes	8.000%	1/15/25	930,000	941,625 (a)(c)
Chesapeake Energy Corp., Senior Notes	8.000%	6/15/27	680,000	674,900 (a)(c)
Continental Resources Inc., Senior Notes	3.800%	6/1/24	3,010,000	2,919,700
Continental Resources Inc., Senior Notes	4.900%	6/1/44	2,640,000	2,409,000
Ecopetrol SA, Senior Notes	7.375%	9/18/43	1,900,000	2,179,110
Genesis Energy LP/Genesis Energy Finance Corp., Senior Bonds	5.625%	6/15/24	2,100,000	2,047,500
Genesis Energy LP/Genesis Energy Finance Corp., Senior Notes	6.750%	8/1/22	1,320,000	1,356,300
Kinder Morgan Inc., Medium-Term Notes	7.750%	1/15/32	6,920,000	8,912,846
Magnum Hunter Resources Corp. Escrow			6,700,000	0 *(d)(e)(g)
MEG Energy Corp., Senior Notes	7.000%	3/31/24	2,900,000	2,501,250 (a)
Murphy Oil USA Inc., Senior Notes	5.625%	5/1/27	1,420,000	1,531,825
NGPL PipeCo LLC, Senior Bonds	4.875%	8/15/27	1,510,000	1,586,028 (a)
NGPL PipeCo LLC, Senior Notes	4.375%	8/15/22	1,010,000	1,050,400 (a)
NGPL PipeCo LLC, Senior Secured Notes	7.768%	12/15/37	1,520,000	1,900,000 (a)
Oasis Petroleum Inc., Senior Notes	7.250%	2/1/19	1,910,000	1,910,000
Oasis Petroleum Inc., Senior Notes	6.500%	11/1/21	2,730,000	2,798,250
Oasis Petroleum Inc., Senior Notes	6.875%	1/15/23	1,420,000	1,448,400
Petrobras Global Finance BV, Senior Notes	7.375%	1/17/27	2,550,000	2,812,650
Petrobras Global Finance BV, Senior Notes	6.750%	1/27/41	5,120,000	5,107,200
Rice Energy Inc., Senior Notes	7.250%	5/1/23	2,250,000	2,435,625
Rockies Express Pipeline LLC, Senior Notes	7.500%	7/15/38	1,080,000	1,239,300 (a)
Rockies Express Pipeline LLC, Senior Notes	6.875%	4/15/40	1,140,000	1,271,100 (a)

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

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Sabine Pass Liquefaction LLC, Senior Secured Notes	5.750%	5/15/24	1,340,000	\$ 1,492,721
Sanchez Energy Corp., Senior Notes	7.750%	6/15/21	1,960,000	1,866,900
Sanchez Energy Corp., Senior Notes	6.125%	1/15/23	8,970,000	7,714,200
Shelf Drilling Holdings Ltd., Secured Notes	9.500%	11/2/20	1,422,438	1,445,553 (a)
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Bonds	5.125%	2/1/25	1,480,000	1,529,950
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Bonds	5.375%	2/1/27	2,080,000	2,176,200
Whiting Petroleum Corp., Senior Notes	5.000%	3/15/19	1,720,000	1,729,116
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	1,420,000	1,404,025
Williams Cos. Inc., Debentures	7.500%	1/15/31	620,000	747,100
Williams Cos. Inc., Senior Notes	3.700%	1/15/23	820,000	820,000
Williams Cos. Inc., Senior Notes	4.550%	6/24/24	1,030,000	1,071,200
Williams Cos. Inc., Senior Notes	5.750%	6/24/44	3,190,000	3,389,375
WPX Energy Inc., Senior Notes	7.500%	8/1/20	530,000	579,025
WPX Energy Inc., Senior Notes	8.250%	8/1/23	860,000	968,575
<i>Total Oil, Gas &amp; Consumable Fuels</i>				<i>93,356,061</i>
<b>Total Energy</b>				<b>99,233,336</b>
<b>Financials 11.6%</b>				
<i>Banks 4.5%</i>				
Bank of America Corp., Junior Subordinated Notes (6.500% to 10/23/24 then 3 mo. USD LIBOR + 4.174%)	6.500%	10/23/24	2,160,000	2,444,850 (h)(i)
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	2,990,000	3,705,814 (a)
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	3,400,000	3,912,125
Barclays PLC, Junior Subordinated Bonds (8.250% to 12/15/18 then USD 5 year Swap Rate + 6.705%)	8.250%	12/15/18	650,000	687,976 (h)(i)
BNP Paribas SA, Junior Subordinated Notes (7.375% to 8/19/25 then USD 5 year Swap Rate + 5.150%)	7.375%	8/19/25	1,470,000	1,662,938 (a)(h)(i)
CIT Group Inc., Senior Notes	5.375%	5/15/20	640,000	688,800
CIT Group Inc., Senior Notes	5.000%	8/15/22	1,000,000	1,084,700
CIT Group Inc., Senior Notes	5.000%	8/1/23	3,470,000	3,747,600
Citigroup Inc., Junior Subordinated Bonds (6.300% to 5/15/24 then 3 mo. USD LIBOR + 3.423%)	6.300%	5/15/24	2,060,000	2,237,675 (h)(i)
Credit Agricole SA, Junior Subordinated Notes (8.375% to 10/13/19 then 3 mo. USD LIBOR + 6.982%)	8.375%	10/13/19	2,100,000	2,336,250 (a)(h)(i)
Credit Agricole SA, Junior Subordinated Notes (8.125% to 12/23/25 then USD 5 year Swap Rate + 6.185%)	8.125%	12/23/25	2,290,000	2,716,561 (a)(h)(i)
JPMorgan Chase & Co., Junior Subordinated Bonds (6.000% to 8/1/23 then 3 mo. USD LIBOR + 3.300%)	6.000%	8/1/23	1,390,000	1,515,100 (h)(i)
JPMorgan Chase & Co., Junior Subordinated Notes (6.100% to 10/1/24 then 3 mo. USD LIBOR + 3.330%)	6.100%	10/1/24	1,170,000	1,292,838 (h)(i)

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Security	Rate	Maturity Date	Face Amount	Value
<i>Banks continued</i>				
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds (7.648% to 9/30/31 then 3 mo. USD LIBOR + 2.500%)	7.648%	9/30/31	1,880,000	\$ 2,397,940 <sup>(h)(i)</sup>
Royal Bank of Scotland Group PLC, Junior Subordinated Notes (8.625% to 8/15/21 then USD 5 year Swap Rate + 7.598%)	8.625%	8/15/21	1,220,000	1,355,725 <sup>(h)(i)</sup>
Royal Bank of Scotland NV, Subordinated Bonds	7.750%	5/15/23	620,000	734,848
<i>Total Banks</i>				<i>32,521,740</i>
<i>Capital Markets 1.3%</i>				
Credit Suisse Group AG, Junior Subordinated Notes (6.250% to 12/18/24 then USD 5 year Swap Rate + 3.455%)	6.250%	12/18/24	2,750,000	2,933,048 <sup>(a)(h)(i)</sup>
Donnelley Financial Solutions Inc., Senior Notes	8.250%	10/15/24	1,680,000	1,801,800
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	1,880,000	2,484,795
Goldman Sachs Group Inc., Subordinated Notes	5.150%	5/22/45	2,030,000	2,329,323
<i>Total Capital Markets</i>				<i>9,548,966</i>
<i>Consumer Finance 2.2%</i>				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	1,744,000	1,967,476
DAE Funding LLC, Senior Notes	4.500%	8/1/22	3,313,000	3,403,693 <sup>(a)</sup>
DAE Funding LLC, Senior Notes	5.000%	8/1/24	3,250,000	3,339,375 <sup>(a)</sup>
FirstCash Inc., Senior Notes	5.375%	6/1/24	1,520,000	1,592,200 <sup>(a)</sup>
Navient Corp., Medium-Term Notes, Senior Notes	8.450%	6/15/18	1,730,000	1,806,985
Navient Corp., Medium-Term Notes, Senior Notes	8.000%	3/25/20	1,510,000	1,668,550
TMX Finance LLC/TitleMax Finance Corp., Senior Secured Notes	8.500%	9/15/18	2,160,000	2,008,800 <sup>(a)</sup>
<i>Total Consumer Finance</i>				<i>15,787,079</i>
<i>Diversified Financial Services 3.1%</i>				
AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Bonds	4.625%	7/1/22	1,210,000	1,298,305
AerCap Ireland Capital DAC/AerCap Global Aviation Trust, Senior Notes	4.625%	10/30/20	650,000	692,223
ASP AMC Merger Subordinated Inc., Senior Notes	8.000%	5/15/25	2,160,000	2,089,800 <sup>(a)</sup>
CRC Escrow Issuer LLC/CRC Finco Inc., Senior Notes	5.250%	10/15/25	1,710,000	1,710,000 <sup>(c)</sup>
Interface Special Holdings Inc., Senior Notes (19.000% PIK)	19.000%	11/1/23	1,495,694	1,503,172 <sup>(a)(b)</sup>
International Lease Finance Corp., Senior Notes	6.250%	5/15/19	250,000	265,824
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	3,675,000	4,303,476
International Lease Finance Corp., Senior Notes	8.625%	1/15/22	170,000	208,535
International Lease Finance Corp., Senior Notes	5.875%	8/15/22	600,000	673,336
Ladder Capital Finance Holdings LLLP/Ladder Capital Finance Corp., Senior Notes	5.250%	3/15/22	850,000	869,125 <sup>(a)</sup>
Ladder Capital Finance Holdings LLLP/Ladder Capital Finance Corp., Senior Notes	5.250%	10/1/25	1,110,000	1,102,374 <sup>(a)</sup>
Nielsen Co. (Luxembourg) Sarl, Senior Notes	5.000%	2/1/25	1,080,000	1,127,250 <sup>(a)</sup>

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

Security	Rate	Maturity Date	Face Amount	Value
<i>Diversified Financial Services continued</i>				
Park Aerospace Holdings Ltd., Senior Notes	5.250%	8/15/22	2,090,000	\$ 2,181,438 <sup>(a)</sup>
Park Aerospace Holdings Ltd., Senior Notes	4.500%	3/15/23	770,000	770,855 <sup>(a)</sup>
Park Aerospace Holdings Ltd., Senior Notes	5.500%	2/15/24	3,800,000	3,999,500 <sup>(a)</sup>
<i>Total Diversified Financial Services</i>				<i>22,795,213</i>
<i>Insurance 0.5%</i>				
Fidelity & Guaranty Life Holdings Inc., Senior Notes	6.375%	4/1/21	1,310,000	1,344,387 <sup>(a)</sup>
Genworth Holdings Inc., Senior Notes	4.900%	8/15/23	1,450,000	1,247,000
MetLife Capital Trust IV, Junior Subordinated Notes	7.875%	12/15/37	1,010,000	1,358,450 <sup>(a)</sup>
<i>Total Insurance</i>				<i>3,949,837</i>
<b>Total Financials</b>				<b>84,602,835</b>
<i>Health Care 7.3%</i>				
<i>Biotechnology 0.2%</i>				
AMAG Pharmaceuticals Inc., Senior Notes	7.875%	9/1/23	1,240,000	1,261,700 <sup>(a)</sup>
<i>Health Care Equipment &amp; Supplies 0.2%</i>				
Greatbatch Ltd., Senior Notes	9.125%	11/1/23	1,240,000	1,355,643 <sup>(a)</sup>
<i>Health Care Providers &amp; Services 4.1%</i>				
BioScrip Inc., First Lien Notes (1 mo. USD LIBOR + 7.000%)	8.224%	6/30/22	2,575,000	2,579,120 <sup>(d)(e)(h)(j)</sup>
BioScrip Inc., Senior Notes	8.875%	2/15/21	960,000	883,200
Centene Corp., Senior Notes	5.625%	2/15/21	1,160,000	1,209,532
Centene Corp., Senior Notes	4.750%	5/15/22	790,000	828,513
Centene Corp., Senior Notes	6.125%	2/15/24	710,000	769,463
Centene Corp., Senior Notes	4.750%	1/15/25	4,320,000	4,492,800
CHS/Community Health Systems Inc., Senior Notes	8.000%	11/15/19	2,010,000	1,964,775
DaVita Inc., Senior Notes	5.750%	8/15/22	1,740,000	1,784,587
DaVita Inc., Senior Notes	5.125%	7/15/24	1,510,000	1,516,606
DaVita Inc., Senior Notes	5.000%	5/1/25	4,150,000	4,104,516
HCA Inc., Debentures	7.500%	11/15/95	6,265,000	