

WESTERN ASSET HIGH INCOME FUND II INC.

Form N-CSRS

December 28, 2016

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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 811-08709**

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

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

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

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

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place,**

**Stamford, CT 06902**

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

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

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

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

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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Semi-Annual Report

October 31, 2016

WESTERN ASSET  
HIGH INCOME FUND II INC.  
(HIX)

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

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**Fund objectives**

The Fund seeks to maximize current income by investing at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities. As a secondary objective, the Fund seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

Under normal market conditions, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in high-yield debt securities. In addition, the Fund may invest up to 35% of its total assets in debt securities of issuers located in emerging market countries.

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## Letter from the chairman

**Dear Shareholder,**

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

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

November 30, 2016

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## Investment commentary

### Economic review

The pace of U.S. economic activity fluctuated during the six months ended October 31, 2016 (the reporting period). Looking back, the U.S. Department of Commerce reported that first and second quarter 2016 U.S. gross domestic product (GDP) growth was 0.8% and 1.4%, respectively. The U.S. Department of Commerce's second reading for third quarter 2016 GDP growth released after the reporting period ended was 3.2%. The improvement in GDP growth in the third quarter 2016 reflected an increase in private inventory investment, an acceleration in exports, an upturn in federal government spending and smaller decreases in state and local government spending.

While there was a pocket of weakness in May 2016, job growth in the U.S. was solid overall and a tailwind for the economy during the reporting period. When the period ended on October 31, 2016, the unemployment rate was 4.9%, as reported by the U.S. Department of Labor. However, the percentage of longer-term unemployed edged slightly higher over the period. In October 2016, 25.2% of Americans looking for a job had been out of work for more than six months, versus 25.1% when the period began.

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### **Market review**

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

A. Looking back, after an extended period of maintaining the federal funds rate<sup>iii</sup> at a historically low range between zero and 0.25%, the Fed increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. At its meeting that concluded on November 2, 2016 (after the reporting period ended), as well as during the prior meetings of the year, the Fed kept rates on hold. In the Fed's statement after the November meeting it said, "The Committee judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation."

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

A. Short-term Treasury yields moved higher, whereas long-term Treasury yields were relatively flat overall during the six months ended October 31, 2016. Two-year Treasury yields began the reporting period at 0.77% and ended the period at 0.86%. Their peak of 0.92% took place on May 24 and May 25, 2016 and their low of 0.56% occurred on July 5, 2016. Ten-year Treasury yields began the reporting period at 1.83% and ended the period at 1.60%. Their peak of 1.88% took place on May 2, 2016 and their low of 1.37% occurred on July 5 and July 8, 2016.

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

A. The spread sectors generally posted positive results during the reporting period. Performance fluctuated with investor sentiment given signs of moderating global growth, shifting expectations for future Fed monetary policy, Brexit—the U.K.'s vote to leave the European Union, and several geopolitical issues. The broad U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Index<sup>iv</sup>, gained 1.51% during the six months ended October 31, 2016. Higher risk segments of the market generated the best returns during the reporting period.

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

A. The U.S. high-yield bond market, as measured by the Bloomberg Barclays U.S. Corporate High Yield – 2% Issuer Cap Index<sup>v</sup>, gained 7.59% for the six months ended October 31, 2016. The high-yield market posted positive returns during all six months of the reporting period. This was driven by several factors, including robust demand from investors looking to generate incremental yield in the low interest rate environment, stabilizing oil prices and the Fed reducing its expectations for rate hikes in 2016.

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

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Global)<sup>vi</sup> gained 5.71% during the six months ended October 31, 2016. While there were several bouts of weakness, the asset class generated positive returns during four of the six months of the



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**Investment commentary (cont d)**

reporting period. Supporting the asset class were stabilizing oil prices, accommodative global monetary policy and overall solid investor demand.

**Performance review**

For the six months ended October 31, 2016, Western Asset High Income Fund II Inc. returned 11.70% based on its net asset value ( NAV<sup>ii</sup>) and 7.84% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund’s unmanaged benchmarks, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index and the EMBI Global, returned 7.59% and 5.71%, respectively for the same period. The Lipper High Yield (Leveraged) Closed-End Funds Category Average<sup>viii</sup> returned 9.66% over the same time frame. Please note that Lipper performance returns are based on each fund’s NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.36 per share. As of October 31, 2016, the Fund estimates that 97.1% of the distributions were sourced from investment income and 2.9% constitutes a return of capital.\* The performance table shows the Fund’s six-month total return based on its NAV and market price as of October 31, 2016. **Past performance is no guarantee of future results.**

**Performance Snapshot** as of October 31, 2016  
(unaudited)

	6-Month Total Return**
Price Per Share	
\$7.57 (NAV)	11.70%
\$7.07 (Market Price)	7.84%

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

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

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

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

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

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### Looking for additional information?

The Fund is traded under the symbol **HIX** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XHGIX** 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 Fund II Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

November 30, 2016

***RISKS:** The Fund is a 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 objective. 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. The Fund's investments are subject to credit risk, inflation risk and interest rate risk. 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. High-yield bonds, known as junk bonds, involve greater credit and liquidity risks than investment grade bonds. Foreign securities are subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions which could result in significant fluctuations. These risks are magnified in emerging markets. The Fund is also permitted purchases of equity securities. Equity securities generally have greater price volatility than fixed income securities. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss.*

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.

Western Asset High Income Fund II Inc.

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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 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 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>iv</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>v</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>vi</sup> The JPMorgan Emerging Markets Bond Index Global ( EMBI Global ) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
  
- <sup>vii</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>viii</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended October 31, 2016, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 35 funds in the Fund's Lipper category.

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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 October 31, 2016 and April 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.

Represents less than 0.1%.

\* Effective August 31, 2016, the Financials sector was redefined to exclude real estate and a Real Estate sector was created.

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**Spread duration** (unaudited)

**Economic exposure** October 31, 2016

**Total Spread Duration**

HIX 5.16 years

Benchmark 4.68 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 80% of Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global  
 EM Emerging Markets  
 HIX Western Asset High Income Fund II Inc.  
 HY High Yield  
 IG Credit Investment Grade Credit

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## Effective duration (unaudited)

Interest rate exposure October 31, 2016

Total Effective Duration

HIX 5.89 years

Benchmark 4.73 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 80% of Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index and 20% of JPMorgan Emerging Markets Bond Index Global  
EM Emerging Markets  
HIX Western Asset High Income Fund II Inc.  
HY High Yield  
IG Credit Investment Grade Credit

**Table of Contents****Schedule of investments (unaudited)**

October 31, 2016

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

Security	Rate	Maturity Date	Face Amount	Value
<b>Corporate Bonds &amp; Notes</b> 111.1%				
<b>Consumer Discretionary</b> 22.8%				
<i>Auto Components</i> 1.3%				
Adient Global Holdings Ltd., Senior Notes	4.875%	8/15/26	2,310,000	\$ 2,277,891 (a)
Goodyear Tire & Rubber Co., Senior Notes	5.000%	5/31/26	1,330,000	1,344,962 (b)
IHO Verwaltungs GmbH, Senior Secured Bonds	4.125%	9/15/21	910,000	933,888 (a)(c)
IHO Verwaltungs GmbH, Senior Secured Bonds	4.750%	9/15/26	910,000	910,000 (a)(c)
ZF North America Capital Inc., Senior Notes	4.750%	4/29/25	2,940,000	3,112,725 (a)
<i>Total Auto Components</i>				<i>8,579,466</i>
<i>Diversified Consumer Services</i> 1.4%				
Cengage Learning Inc., Senior Notes	9.500%	6/15/24	1,870,000	1,771,825 (a)(b)
Prime Security Services Borrower LLC/Prime Finance Inc., Secured Notes	9.250%	5/15/23	3,300,000	3,514,500 (a)
Service Corp. International, Senior Notes	7.500%	4/1/27	2,090,000	2,455,750 (b)
StoneMor Partners LP/Cornerstone Family Services of WV, Senior Notes	7.875%	6/1/21	1,810,000	1,778,325 (b)
<i>Total Diversified Consumer Services</i>				<i>9,520,400</i>
<i>Hotels, Restaurants &amp; Leisure</i> 4.7%				
Bossier Casino Venture Holdco Inc., Senior Secured Bonds	14.000%	2/9/18	2,736,014	2,736,014 (a)(b)(c)(d)(e)
Brinker International Inc., Senior Notes	5.000%	10/1/24	3,506,000	3,576,120 (a)
Carrols Restaurant Group Inc., Secured Notes	8.000%	5/1/22	1,910,000	2,086,675 (b)
CCM Merger Inc., Senior Notes	9.125%	5/1/19	1,344,000	1,406,182 (a)(b)
CEC Entertainment Inc., Senior Notes	8.000%	2/15/22	2,060,000	2,080,600 (b)
Downstream Development Authority of the Quapaw Tribe of Oklahoma, Senior Secured Notes	10.500%	7/1/19	2,180,000	2,212,700 (a)(b)
Fontainebleau Las Vegas Holdings LLC, Senior Secured Notes	10.250%	6/15/15	975,000	102 *(a)(b)(f)
Gala Electric Casinos Ltd., Secured Notes	11.500%	6/1/19	1,097,091 GBP	1,387,959 (g)
GLP Capital LP/GLP Financing II Inc., Senior Notes	5.375%	4/15/26	2,177,000	2,318,505 (b)
Greektown Holdings LLC/Greektown Mothership Corp., Senior Secured Notes	8.875%	3/15/19	850,000	903,125 (a)(b)
Landry's Inc., Senior Notes	6.750%	10/15/24	2,020,000	2,065,450 (a)(b)
MGM Resorts International, Senior Notes	4.625%	9/1/26	2,210,000	2,138,175 (b)
Mohegan Tribal Gaming Authority, Senior Notes	7.875%	10/15/24	1,640,000	1,668,700 (a)
Scientific Games International Inc., Senior Secured Notes	7.000%	1/1/22	1,030,000	1,100,658 (a)(b)
Viking Cruises Ltd., Senior Notes	8.500%	10/15/22	4,897,000	4,958,213 (a)(b)
<i>Total Hotels, Restaurants &amp; Leisure</i>				<i>30,639,178</i>
<i>Household Durables</i> 2.2%				
Century Intermediate Holding Co. 2, Senior Notes	9.750%	2/15/19	3,860,000	3,917,900 (a)(b)(c)
Shea Homes LP/Shea Homes Funding Corp., Senior Notes	6.125%	4/1/25	3,120,000	3,088,800 (a)(b)

See Notes to Financial Statements.

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Security	Rate	Maturity Date	Face Amount	Value
<i>Household Durables continued</i>				
William Lyon Homes Inc., Senior Notes	8.500%	11/15/20	2,980,000	\$ 3,136,450 <sup>(b)</sup>
William Lyon Homes Inc., Senior Notes	7.000%	8/15/22	610,000	637,450 <sup>(b)</sup>
Woodside Homes Co., LLC/Woodside Homes Finance Inc., Senior Notes	6.750%	12/15/21	3,720,000	3,627,000 <sup>(a)(b)</sup>
<i>Total Household Durables</i>				<i>14,407,600</i>
<i>Leisure Products 0.3%</i>				
Gibson Brands Inc., Senior Secured Notes	8.875%	8/1/18	2,560,000	1,900,800 <sup>(a)(b)</sup>
<i>Media 9.3%</i>				
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	5.750%	2/15/26	2,050,000	2,140,969 <sup>(a)</sup>
CCO Holdings LLC/CCO Holdings Capital Corp., Senior Notes	5.875%	5/1/27	3,100,000	3,255,000 <sup>(a)(b)</sup>
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	4.908%	7/23/25	3,510,000	3,792,313 <sup>(a)(b)</sup>
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., Senior Secured Notes	6.484%	10/23/45	1,480,000	1,740,443 <sup>(a)(b)</sup>
DISH DBS Corp., Senior Notes	5.875%	7/15/22	1,400,000	1,449,000 <sup>(b)</sup>
DISH DBS Corp., Senior Notes	5.875%	11/15/24	1,020,000	1,030,838 <sup>(b)</sup>
DISH DBS Corp., Senior Notes	7.750%	7/1/26	3,850,000	4,237,425
iHeartCommunications Inc., Senior Notes	14.000%	2/1/21	2,768,612	1,065,916 <sup>(b)(c)</sup>
LG FinanceCo Corp., Senior Notes	5.875%	11/1/24	920,000	933,225 <sup>(a)</sup>
MDC Partners Inc., Senior Notes	6.500%	5/1/24	2,650,000	2,272,375 <sup>(a)(b)</sup>
New Cotai LLC/New Cotai Capital Corp., Senior Secured Notes	10.625%	5/1/19	2,767,499	1,646,662 <sup>(a)(b)(c)</sup>
SFR Group SA, Senior Secured Bonds	6.250%	5/15/24	7,770,000	7,794,242 <sup>(a)</sup>
SFR Group SA, Senior Secured Notes	7.375%	5/1/26	3,500,000	3,539,375 <sup>(a)</sup>
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	2,500,000	2,872,895 <sup>(b)</sup>
Time Warner Cable Inc., Senior Notes	8.250%	4/1/19	1,336,000	1,528,280 <sup>(b)</sup>
Univision Communications Inc., Senior Secured Notes	5.125%	2/15/25	4,184,000	4,210,150 <sup>(a)(b)</sup>
Viacom Inc., Senior Notes	4.375%	3/15/43	4,689,000	4,330,118
Virgin Media Finance PLC, Senior Notes	6.375%	4/15/23	5,620,000	5,760,500 <sup>(a)(b)</sup>
Virgin Media Finance PLC, Senior Notes	6.000%	10/15/24	3,990,000	4,064,812 <sup>(a)(b)</sup>
Ziggo Secured Finance BV, Senior Secured Notes	5.500%	1/15/27	3,100,000	3,069,000 <sup>(a)</sup>
<i>Total Media</i>				<i>60,733,538</i>
<i>Multiline Retail 0.9%</i>				
Dollar Tree Inc., Senior Notes	5.750%	3/1/23	2,210,000	2,364,700 <sup>(b)</sup>
Neiman Marcus Group LLC, Senior Secured Notes	7.125%	6/1/28	660,000	622,050 <sup>(b)</sup>
Neiman Marcus Group Ltd. LLC, Senior Notes	8.000%	10/15/21	1,310,000	1,087,300 <sup>(a)(b)</sup>
Neiman Marcus Group Ltd. LLC, Senior Notes	8.750%	10/15/21	2,040,000	1,615,425 <sup>(a)(b)(c)</sup>
<i>Total Multiline Retail</i>				<i>5,689,475</i>

See Notes to Financial Statements.



**Table of Contents****Schedule of investments (unaudited) (cont d)**

October 31, 2016

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

	Rate	Maturity Date	Face Amount	Value
<b>Security</b>				
<i>Specialty Retail 2.7%</i>				
American Greetings Corp., Senior Notes	7.375%	12/1/21	2,480,000	\$ 2,551,300 (b)
GameStop Corp., Senior Notes	6.750%	3/15/21	1,760,000	1,817,200 (a)(b)
Guitar Center Inc., Senior Secured Bonds	6.500%	4/15/19	6,210,000	5,604,525 (a)(b)
Hot Topic Inc., Senior Secured Notes	9.250%	6/15/21	1,570,000	1,672,050 (a)(b)
L Brands Inc., Debentures	6.950%	3/1/33	800,000	830,000 (b)
L Brands Inc., Senior Notes	6.875%	11/1/35	1,710,000	1,821,150
L Brands Inc., Senior Notes	7.600%	7/15/37	270,000	284,175
PetSmart Inc., Senior Notes	7.125%	3/15/23	1,060,000	1,111,675 (a)(b)
Sally Holdings LLC/Sally Capital Inc., Senior Notes	5.625%	12/1/25	1,650,000	1,769,625 (b)
<i>Total Specialty Retail</i>				<i>17,461,700</i>
<b>Total Consumer Discretionary</b>				<b>148,932,157</b>
<b>Consumer Staples 4.4%</b>				
<i>Beverages 1.0%</i>				
Carolina Beverage Group LLC/Carolina Beverage Group Finance Inc., Secured Notes	10.625%	8/1/18	2,410,000	2,253,350 (a)(b)
Cott Beverages Inc., Senior Notes	6.750%	1/1/20	2,140,000	2,228,275 (b)
DS Services of America Inc., Secured Notes	10.000%	9/1/21	2,003,000	2,233,345 (a)(b)
<i>Total Beverages</i>				<i>6,714,970</i>
<i>Food &amp; Staples 0.2%</i>				
FAGE International SA/FAGE USA Dairy Industry Inc., Senior Notes	5.625%	8/15/26	1,250,000	1,293,750 (a)
<i>Food &amp; Staples Retailing 0.5%</i>				
Beverages & More Inc., Senior Secured Notes	10.000%	11/15/18	3,110,000	3,012,812 (a)(b)
<i>Food Products 1.1%</i>				
Pilgrim s Pride Corp., Senior Notes	5.750%	3/15/25	3,090,000	3,174,975 (a)(b)
Simmons Foods Inc., Secured Notes	7.875%	10/1/21	4,220,000	4,262,200 (a)(b)
<i>Total Food Products</i>				<i>7,437,175</i>
<i>Household Products 0.8%</i>				
Central Garden & Pet Co., Senior Notes	6.125%	11/15/23	1,290,000	1,383,525 (b)
Spectrum Brands Inc., Senior Notes	6.125%	12/15/24	1,630,000	1,793,000 (b)
Spectrum Brands Inc., Senior Notes	5.750%	7/15/25	2,080,000	2,262,000 (b)
<i>Total Household Products</i>				<i>5,438,525</i>
<i>Tobacco 0.8%</i>				
Alliance One International Inc., Secured Notes	9.875%	7/15/21	4,500,000	3,774,375 (b)
Alliance One International Inc., Senior Secured Notes	8.500%	4/15/21	1,170,000	1,172,925 (a)
<i>Total Tobacco</i>				<i>4,947,300</i>
<b>Total Consumer Staples</b>				<b>28,844,532</b>

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## Western Asset High Income Fund II Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Energy 20.5%</b>				
<i>Energy Equipment &amp; Services 1.6%</i>				
CGG, Senior Notes	6.500%	6/1/21	2,520,000	\$ 1,285,200
CGG, Senior Notes	6.875%	1/15/22	480,000	242,400
EnSCO PLC, Senior Notes	4.700%	3/15/21	450,000	416,700
EnSCO PLC, Senior Notes	5.750%	10/1/44	2,403,000	1,616,017
KCA Deutag UK Finance PLC, Senior Secured Notes	7.250%	5/15/21	880,000	761,200 (a)
Pride International Inc., Senior Notes	6.875%	8/15/20	650,000	662,188
Pride International Inc., Senior Notes	7.875%	8/15/40	1,890,000	1,516,725 (b)
SESI LLC, Senior Notes	6.375%	5/1/19	2,780,000	2,759,150
Sierra Hamilton LLC/Sierra Hamilton Finance Inc., Senior Secured Notes	12.250%	12/15/18	2,730,000	1,116,297 (a)(b)(d)(e)
<i>Total Energy Equipment &amp; Services</i>				<i>10,375,877</i>
<i>Oil, Gas &amp; Consumable Fuels 18.9%</i>				
Berry Petroleum Co., Senior Notes	6.750%	11/1/20	1,550,000	860,250 *(b)(d)(h)
Blue Racer Midstream LLC/Blue Racer Finance Corp., Senior Notes	6.125%	11/15/22	2,260,000	2,220,450 (a)(b)
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Secured Notes	11.500%	1/15/21	2,150,000	2,434,875 (a)(b)
Carrizo Oil & Gas Inc., Senior Notes	7.500%	9/15/20	1,750,000	1,822,188 (b)
Chesapeake Energy Corp., Senior Notes	6.875%	11/15/20	4,340,000	4,112,150 (b)
Chesapeake Energy Corp., Senior Notes	5.375%	6/15/21	940,000	822,500
Chesapeake Energy Corp., Senior Notes	5.750%	3/15/23	700,000	609,000
Continental Resources Inc., Senior Notes	5.000%	9/15/22	570,000	560,025 (b)
Continental Resources Inc., Senior Notes	3.800%	6/1/24	550,000	508,750
Continental Resources Inc., Senior Notes	4.900%	6/1/44	2,650,000	2,269,062
Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., Senior Notes	6.125%	3/1/22	2,919,000	2,999,272 (b)
Diamondback Energy Inc., Senior Notes	4.750%	11/1/24	760,000	760,950 (a)
Ecopetrol SA, Senior Notes	5.875%	5/28/45	2,500,000	2,218,750 (b)
Enterprise Products Operating LLC, Junior Subordinated Notes	4.593%	8/1/66	285,000	271,463 (b)(i)
EP Energy LLC/Everest Acquisition Finance Inc., Senior Notes	9.375%	5/1/20	1,960,000	1,548,400 (b)
EP Energy LLC/Everest Acquisition Finance Inc., Senior Notes	6.375%	6/15/23	1,330,000	911,050 (b)
Extraction Oil & Gas Holdings LLC/Extraction Finance Corp., Senior Notes	7.875%	7/15/21	960,000	1,020,000 (a)(b)
Freeport-McMoRan Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.125%	6/15/19	670,000	686,750
Freeport-McMoRan Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.750%	2/1/22	740,000	760,350

See Notes to Financial Statements.

**Table of Contents****Schedule of investments (unaudited) (cont d)**

October 31, 2016

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

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Freeport-McMoRan Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes	6.875%	2/15/23	2,490,000	\$ 2,595,825 (b)
Gazprom OAO Via Gaz Capital SA, Loan Participation Notes, Senior Notes	6.510%	3/7/22	2,550,000	2,800,260 (a)
Globe Luxembourg SCA, Senior Secured Notes	9.625%	5/1/18	5,640,000	5,428,500 (a)(b)
Gulfport Energy Corp., Senior Notes	6.000%	10/15/24	2,010,000	2,050,200 (a)
Holly Energy Partners LP/Holly Energy Finance Corp., Senior Notes	6.000%	8/1/24	720,000	752,400 (a)
Kinder Morgan Inc., Medium-Term Notes	7.750%	1/15/32	1,950,000	2,390,353 (b)
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	1,720,000	1,764,985 (g)
LUKOIL International Finance BV, Senior Notes	4.563%	4/24/23	2,040,000	2,071,997 (a)
Magnum Hunter Resources Corp. Escrow	9.750%	5/15/20	8,070,000	0 *(d)(e)(j)
MEG Energy Corp., Senior Notes	6.500%	3/15/21	3,250,000	2,819,375 (a)
MEG Energy Corp., Senior Notes	7.000%	3/31/24	880,000	726,000 (a)
Murray Energy Corp., Senior Secured Notes	11.250%	4/15/21	2,580,000	1,993,050 (a)(b)
NGL Energy Partners LP/NGL Energy Finance Corp., Senior Notes	7.500%	11/1/23	2,000,000	2,015,000 (a)
NGPL PipeCo LLC, Senior Secured Notes	7.768%	12/15/37	1,900,000	2,090,000 (a)(b)
Oasis Petroleum Inc., Senior Notes	7.250%	2/1/19	2,240,000	2,268,000 (b)
Oasis Petroleum Inc., Senior Notes	6.500%	11/1/21	3,238,000	3,233,952 (b)
Oasis Petroleum Inc., Senior Notes	6.875%	1/15/23	1,540,000	1,516,900 (b)
Pacific Exploration and Production Corp., Senior Notes	12.000%	12/22/16	1,810,000	1,831,720
Pacific Exploration and Production Corp., Senior Notes	7.250%	12/12/21	2,350,000	481,750 *(a)(h)
Petrobras Global Finance BV, Senior Notes	4.375%	5/20/23	800,000	727,000
Petrobras Global Finance BV, Senior Notes	6.750%	1/27/41	3,980,000	3,545,981
Petroleos de Venezuela SA, Senior Bonds	6.000%	5/16/24	4,560,000	1,721,400 (g)
Petroleos Mexicanos, Senior Bonds	6.625%	6/15/35	2,000,000	2,023,000
Petroleos Mexicanos, Senior Notes	4.875%	1/24/22	5,900,000	6,046,320
Rice Energy Inc., Senior Notes	7.250%	5/1/23	2,952,000	3,143,880 (b)
Rockies Express Pipeline LLC, Senior Notes	7.500%	7/15/38	1,330,000	1,436,400 (a)(b)
Rockies Express Pipeline LLC, Senior Notes	6.875%	4/15/40	1,430,000	1,497,925 (a)(b)
Rosneft Finance SA, Senior Notes	7.875%	3/13/18	1,390,000	1,481,254 (a)(b)
Sabine Pass Liquefaction LLC, Senior Secured Notes	5.750%	5/15/24	1,750,000	1,859,375
Sabine Pass Liquefaction LLC, Senior Secured Notes	5.000%	3/15/27	700,000	714,000 (a)
Sanchez Energy Corp., Senior Notes	7.750%	6/15/21	1,470,000	1,374,450 (b)(d)
Sanchez Energy Corp., Senior Notes	6.125%	1/15/23	10,670,000	9,176,200 (b)(d)
Shelf Drilling Holdings Ltd., Senior Secured Notes	8.625%	11/1/18	1,810,000	1,457,050 (a)(b)(d)
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes	5.125%	2/1/25	1,810,000	1,810,000 (a)

See Notes to Financial Statements.

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Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas &amp; Consumable Fuels continued</i>				
Targa Resources Partners LP/Targa Resources Partners Finance Corp., Senior Notes	5.375%	2/1/27	2,000,000	\$ 2,005,000 <sup>(a)(b)</sup>
Tesoro Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	6.125%	10/15/21	290,000	303,594
Tesoro Logistics LP/Tesoro Logistics Finance Corp., Senior Notes	6.375%	5/1/24	810,000	876,825
Whiting Petroleum Corp., Senior Notes	5.000%	3/15/19	1,840,000	1,757,200 <sup>(b)</sup>
Whiting Petroleum Corp., Senior Notes	6.250%	4/1/23	690,000	639,975 <sup>(b)</sup>
Williams Cos. Inc., Debentures	7.500%	1/15/31	780,000	900,416
Williams Cos. Inc., Senior Notes	3.700%	1/15/23	1,040,000	1,011,400
Williams Cos. Inc., Senior Notes	4.550%	6/24/24	1,280,000	1,308,800 <sup>(b)</sup>
Williams Cos. Inc., Senior Notes	5.750%	6/24/44	3,900,000	4,004,812 <sup>(b)</sup>
WPX Energy Inc., Senior Notes	7.500%	8/1/20		