



CLAYMORE®

WIA & WIW Portfolio Manager Commentary

Q4 2009

 CLOSED-END FUNDS

NYSE: WIA/WIW

What is your outlook for inflation?

The notion of a double dip recession is gaining attention because of the expiration of various fiscal and monetary stimulus programs. However, this economic phenomenon seems unlikely. As long as The Federal Reserve ("Fed") maintains the current low rate environment, which we believe it will, access to credit should remain sufficient. Given the elevated levels of unemployment, the recent dip in jobless claims is a positive sign that the labor market has stabilized. The financial market is focused on consumer spending but we believe more sustained gains in capital expenditures and exports will be key to the US recovery. Thus, we find worries over a double dip recession to be exaggerated.

TIPS have performed well as inflation expectations have risen on prospects of growth. Inflation accretion remains positive and we therefore have a favorable view of Treasury inflation-protected securities, especially long-dated issues.

Can you provide a recap of recent economic activity and how WIA and WIW were affected?

Market sentiment remained positive as investors continued to take risk throughout the quarter. The Barclays Capital U.S. Aggregate Index¹ returned +20 basis points (bps). As a comparison, the S&P 500 Index² returned +604 bps. Investment-grade and high-yield credit produced positive excess returns. Other spread sectors, including subordinated financial issues, non-agency mortgages, CMBS and emerging markets, also generated positive excess returns. Only the Treasury sector detracted as better economic data and new issuance led to higher yields.

The Fed held the Fed funds rate at the 0-0.25% range. The Fed announced that it will end many of the special liquidity programs in early 2010. Inflation remained moderate despite oil prices increasing to \$80/barrel. Trailing 12-month headline inflation in the U.S., as measured by the Consumer Price Index for All Urban Consumers ("CPI-U") showed an increase of 1.8% through November and core inflation continued to moderate to +1.7% over the same period.

The housing market saw more positive news during the quarter. New home sales and housing starts all showed increases. On the business front, industrial production and capacity utilization also increased, in a sign that economic activity was increasing.

Despite positive news, the unemployment rate was at 10.0% in November. However the change in nonfarm payroll from -190,000 to -11,000 in November was a sign that the labor market was stabilizing.

CPI-U finally moved, moving from -1.3% at the end of September 2009 to 2.7% at the end of December 2009, year over year. Core CPI (which excludes the effects of food and energy) increased from 1.5% to 1.8% during the same period. Personal Consumption Expenditures ("PCE") core deflator, which we believe is the Fed's favorite inflation measure, also declined slightly from 1.5% to just 1.3% over the quarter. As official inflation measures began moving higher, other reflation trades also performed well. Commodities gained 9% and gold was up 8.86%. The U.S. dollar, however, rallied somewhat, gaining 1.6% on a trade-weighted basis.

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U.S. TIPS outperformed as real yields rallied slightly while earning better than expected CPI accretion. Breakeven rates, the difference between nominal yields and real yields, rose sharply with 10-year TIPS now pricing in average inflation of 2.41% at the end of December vs. 1.77% in September.

The 10-year U.S. TIPS real yield fell from approximately 1.54 % at the end of September 2009 to approximately 1.43% at the end of December 2009, generating 1.53 % of total return for the fourth quarter. The 10-year U.S. Treasury, on the other hand, had a total return of -3.60 % for the fourth quarter.

What is your outlook for the Funds' primary investments – U.S. TIPS, inflation-linked securities, high-yield (WIW) and corporate bonds (WIA)? What is your outlook for inflation and short-term interest rates?

Inflation volatility is at levels much higher than over the past 25 years, and we believe it will continue to be at heightened levels over the next business cycle and beyond. With that in mind, coupled with the added diversification benefit provided by TIPS, we contend that TIPS remain an attractive investment with long-term advantages.

The Fed is likely to keep the Fed funds rate anchored at 0-0.25% in the near future. A large concern the Fed now faces is excess bank reserves. Government support from the TARP program and the Fed's various special liquidity programs helped banks restore their balance sheets, but banks then held on to reserves in excess of their capital requirements. As the recovery accelerates, banks may quickly reduce these excess reserves by extending credit. Increased lending should stimulate economic activity, but in doing so, might also contribute to inflationary pressures. Therefore, as the Fed manages the level of bank reserves, it must be careful not to inhibit economic growth and increase inflation. As long as the economic recovery is still in its infancy, the Fed should continue its current policies.

Although the labor market is stabilizing, the declining trend in jobless claims reflects a drop-off in layoffs rather than an increase in hires. For unemployment to truly decline, we will need to see specific types of job growth. The source of new job growth will probably have to come from the service sector as the housing market remains weak and is unlikely to contribute significant new jobs any time soon. The recent increase in industrial production and capacity utilization indicates that factory-related jobs could increase in the coming year.

Despite an uptick in consumer spending in November, most likely due to the holidays, consumers will likely continue to demonstrate a more conservative mindset with increased savings and less consumption. Businesses, especially those that are export oriented, should benefit from a lower US dollar and increased future spending. Corporate profits in 4Q09 showed improvement, leading to an improved outlook for the business sector compared to a year ago. Therefore, we think that businesses, rather than consumers, are likely to be the primary contributors to future economic growth. Considering current Fed policies, the likelihood of moderate inflation in the months ahead, a stabilizing labor market and an improved business climate, we find fears of a double dip recession to be exaggerated.

Investment Grade Credit

Even with the unprecedented outperformance displayed in the credit markets during 2009, Western Asset continues to overweight high-grade corporate bonds as we enter 2010. Historically low Treasury rates and investors' insatiable appetite for yield alternatives will likely continue to drive demand for corporate spread products in 2010. Our current overweight view is tempered by the fact that valuations and absolute yields now offer corporate bond investors a

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somewhat less compelling opportunity than six months ago. While spreads can gradually grind tighter, we believe 2010 will be more about the coupon component of total return and less about relative price appreciation. We would not be surprised if we had a temporary pullback in spreads at some point over the course of 2010.

Fundamentally, the majority of companies should continue to outperform analyst expectations and balance sheets should continue to delever. We have witnessed a recent surge in merger and acquisition ("M&A") activity in the last four months and expect to see this trend continue in 2010. We are in the first act of M&A drama and will keep a close eye on the shareholder-friendly nature of these deals. Market chatter surrounding stock buy-back activity has increasingly crept into headlines. That said, we believe the majority of companies will continue to operate in a post-crisis, conservative manner with respect to their balance sheets. The new issue calendar should remain robust in the next three to six months. Low long rates will likely induce corporate Treasurers to issue long-dated paper in the current sub-5% yield environment. Lower quality corporate situations should outperform the market as credit continues to normalize. Steep, front-end Treasury curves anchored by the Federal Reserve make flatter credit curves quite attractive.

High Yield

It would be very difficult to match last year's record return for the asset class, and we have no such expectations. However, we believe that meaningful performance opportunities continue to exist in 2010. We believe current valuations remain sensible based on current financial metrics; however we expect these metrics to improve dramatically over the course of the next 12 months. Therefore, we expect to see some incremental spread tightening year-over-year. With the current yield on the U.S. High Yield Master II Index³ at 9.06%, the sector still looks like a compelling alternative to other fixed-income asset classes. With respect to fundamentals, the most obvious measure regarding the trajectory of improvement is observable through the default rate. Our expectation calls for the US trailing 12-month high-yield default rate to drop from an estimated 13.1% (Moody's) at year-end 2009 to around 4.5% by the end of 2010. As a result, recovery rates should also rise, resulting in a dramatic improvement in default losses for high-yield investors.

Other fundamental measures which demonstrate similar improvement include the return of equity capital to the market (according to JPMorgan, \$529 billion of new equity was raised by US companies during 2009, a 42% increase versus 2008), increasing profit margins for most high-yield issuers, and the rapid rise in cash on corporate balance sheets. While heightened cash levels might trigger alarm for our colleagues on the investment-grade side of the business (risk of aggressive acquisition, share repurchase, increased capital expenditures), most high-yield issuers view their cash as a protective measure that lessens their refinancing needs going forward. Their willingness to take financial risk is still severely affected by the near-death experience of 2008. In our opinion, their conservative posture will remain throughout 2010 and further support improving balance sheet trends.

Outside of U.S. TIPS, where are you finding value in the inflation-linked securities market?

We continue to own Canadian real return bonds as they have done well and we still like them on a relative basis. We have also increased our position in Australia where the government has recently begun reissuing linkers. Despite strong economic data and several rate increases from the central bank, these have been stable at ~3% real yields.

How do the Funds make strategic use of credit default swaps?

Credit default swaps can be used to increase or decrease exposure to the corporate sector. As a bond investor, the Funds can increase exposure to corporate bonds by selling protection on an issuer or a basket. In this scenario the Funds accept the risk of default in exchange for a periodic payment (the coupon), just as if they had bought a bond. Conversely, Western could buy protection in the credit default swap market to reduce corporate exposure. Either way,

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credit default swaps are often more liquid and easier to transact in than the underlying corporate bonds. As such they are a valuable tool for managing the desired risk level and position on the yield curve for the Funds' corporate bond exposure.

What factors may affect the Funds' dividend rates?

Both WIA and WIW invest at least 80% of their total managed assets in inflation-linked securities. In addition, the Fund's may each invest in non-inflation-linked securities and instruments with the potential to enhance the Fund's income. There are some important differences between investing directly in inflation-linked securities and investing in inflation-linked securities through an actively-managed closed-end fund, such as WIA or WIW. Among these differences are the ways in which investors receive distributions from their investments. Whereas individual inflation-linked securities pay a semi-annual coupon based on a principal value that adjusts for inflation (using CPI-U), WIA and WIW pay monthly dividends based on the income derived from the underlying investments in U.S. TIPS, inflation linked securities and other fixed-income securities.

Historically, CPI-U figures (which are utilized for U.S. TIPS' principal value accretion) have fluctuated from month to month. As a result of this seasonality of inflation, the Funds' monthly distributions may be greater than or less than the amount of income generated by each Fund's underlying portfolio of investments. Although such shortfalls and excesses may occur, the Funds seek to avoid a net return of capital during the course of any given taxable year. In an effort to provide current income and a relatively stable monthly distribution, the Funds attempt to set their dividend rates based on current and projected net investment income at a level that is believed to be sustainable over a period of time.

Each Fund intends to continue to qualify as a regulated investment company for U.S. federal income tax purposes and to meet all other requirements necessary to be relieved of federal taxes on income and gains distributed in a timely manner to shareholders. Each Fund will distribute substantially all of its net investment income and net realized capital gains to its shareholders on a current basis. Accordingly, each Fund will be able to retain for use in the following year very little, if any, of its net investment income and net realized capital gains in excess of its regular monthly distributions for the current year. This means that the Funds may begin each calendar year without a significant "cushion" of undistributed income and gains.

What effect does the seasonality of inflation have on the Funds' income?

U.S. and non-U.S. inflation generally exhibits a normal seasonal pattern of being high in the first half of the year and lower in the second half. By maintaining a stable dividend, the Funds attempt to mitigate the effects of the seasonality of inflation. We will look forward to the spring months because we believe they generally provide good inflation accretion for U.S. TIPS holders.

Inflation-linked securities may provide a hedge against inflation. What are some of the hedging strategies the Funds have pursued to address risks not directly associated with inflation?

We again did not implement any hedging strategies during the fourth quarter, consistent with the quarter ended September 30, 2009. Therefore these strategies did not impact the Funds' yields and had no impact on the total return of WIA and WIW, respectively.

When hedging strategies are implemented in the Funds' portfolios, it is primarily through the use of short futures and long put options. In the past, we have also been opportunistic sellers of calls.

Recall that one of our goals is to maintain a relatively stable NAV – so in bull markets, hedging strategies may cause us to underperform published indices on a total return basis. In bear markets, hedging strategies are designed to help protect the NAV against a significant decline in value. However, there can be no assurance such hedging strategies, if implemented, will be successful.

What are the key reasons you believe investors should hold WIA and WIW in their portfolio?

The key reasons investors should hold WIA and WIW in their portfolio are as follows:

- Current income potential.
- Opportunity for long-term inflation protection: The inflation-linked securities in which WIA and WIW currently invest continue to be one of the few yield-bearing securities that are directly linked to inflation. (The positive effects of inflation on the inflation-linked securities may not necessarily be reflected in the share prices of the Funds.)
- Diversification within investors' fixed-income portfolios.
- Any portion of the Funds' dividends directly attributable to U.S. TIPS principal adjustments is exempt from state and local income tax in certain states.
- An investment in WIA or WIW, as compared to a direct investment in individual U.S. TIPS, may help avoid the "phantom income"* concern.

We continue to believe that:

- Inflation-linked securities, such as those currently held by the Funds, can be an excellent diversifier for a fixed-income portfolio.

*"Phantom income" is generally any income that is reportable as taxable income but that does not generate cash flow for the investor. In the case of a direct investment in U.S. TIPS, phantom income exists because the investor receives the coupon income in cash but is taxed on both the coupon income and the accretion of principal (resulting from inflation).

How have the NAVs and share prices of WIA and WIW performed?

Net Asset Value

	NAV Per Share (\$)					NAV Performance: Total Return			
	Inception	12/29/06	12/31/07	12/31/08	12/31/09	Quarter Ended 12/31/2009	Year Ended 12/31/2009	Inception Through 12/31/2009 ¹	Inception Through 12/31/2009 ²
WIA	14.33	12.83	13.38	11.48	12.85	2.48%	16.35%	3.83%	26.51%
WIW	14.33	13.03	13.53	11.39	12.94	2.51%	18.36%	4.33%	28.15%

Share Price

	Price Per Share (\$)					Price Performance: Total Return			
	Inception	12/29/06	12/31/07	12/31/08	12/31/09	Quarter Ended 12/31/2009	Year Ended 12/31/2009	Inception Through 12/31/2009 ¹	Inception Through 12/31/2009 ²
WIA	15.00	11.42	11.73	10.80	12.32	3.26%	18.71%	2.83%	19.13%
WIW	15.00	11.57	11.76	10.49	12.04	2.26%	19.91%	2.83%	17.73%

¹Annualized

²Cumulative

Inception date of WIA is 9/25/2003; inception date of WIW is 2/24/2004

Since Inception returns assume a purchase of common shares at the initial offering price of \$15.00 per share for share price returns and initial net asset value (NAV) of \$14.33 per share for NAV returns. Returns for periods of less than one year are not annualized. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for share price returns or NAV for NAV returns. Until the DRIP price is available from the Plan Agent, dividends are assumed to be paid in cash for total return purposes.

Western Asset Management Company
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¹The Barclays Capital U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

²Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index is unmanaged and it is not possible to invest directly in an index.

³The Merrill Lynch US High Yield Master II Index is a commonly used benchmark index for high yield corporate bonds. It is administered by Merrill Lynch. The Master II is a measure of the broad high yield bond market.

Risks and Other Considerations of the Funds

This document may contain forward-looking statements representing Western Asset Management Company's beliefs concerning future operations, strategies, financial results or other developments. Investors are cautioned that such forward-looking statements involve risks and uncertainties. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond Western Asset Management Company's control or are subject to change, actual results could be materially different. Other risks are detailed from time to time in the Funds' period reports filed with the Securities and Exchange Commission.

This document is not an offer to sell securities of the Funds and it is not soliciting an offer to buy securities of the Funds. There can be no assurance that a Fund will achieve its investment objectives. The net asset value of each Fund will fluctuate with the value of the underlying securities. It is important to note that closed-end funds trade on their market value, not net asset value, and closed-end funds often trade at a discount to their net asset value. Past performance is not an indication of future performance. There can be no guarantee that the Funds' hedging strategies will be employed under all market conditions or will be successful. Additionally, the cost paid for the hedging strategies may result in a reduction of the net asset value of a Fund and, as a result, could make the Fund worse off than if such hedging strategies had not been used.

Certain risks are associated with the leveraging of a Fund's common shares. Both the net asset value and the market value of the common shares may be subject to higher volatility and a decline in value. A Fund's leveraging strategy may not be successful.

An investment in a Fund is subject to certain risks and other considerations. Such risks and considerations include, but are not limited to: Investment Risk, Market Discount Risk, Interest Rate Risk, U.S. TIPS Risk, Credit Risk, Lower Grade and Unrated Securities Risk, Leverage Risk, Issuer Risk, Country Risk, (WIW only) Emerging Markets Risk, Prepayment Risk, Reinvestment Risk, Derivatives Risk, Inflation/Deflation Risk, Mortgage-Related Securities Risk, Management Risk, Turnover Risk, Anti-Takeover Provisions, Smaller Company Risk, and Market Disruption and Geopolitical Risk. Investors should consider the risks, expenses and fees of the Funds prior to investing.

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