

WESTERN ASSET HIGH INCOME FUND II INC.

Form 497

July 28, 2008

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**WESTERN ASSET ZENIX INCOME FUND INC.**

**55 Water Street**

**New York, New York 10041**

July 28, 2008

Dear Stockholder:

The Annual Meeting of Stockholders (the Meeting ) of Western Zenix Income Fund Inc. ( ZIF ) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, September 5, 2008 at 3:00 p.m., Eastern Standard Time, for the purposes of considering and voting upon the following:

1. A proposal to elect two Class II Directors to the Board of Directors of Western Asset Zenix Income Fund Inc.
2. A proposal to approve the merger of Western Asset Zenix Income Fund Inc. with and into Western Asset High Income Fund II Inc. in accordance with the Maryland General Corporation Law.
3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

The close of business on July 11, 2008 has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting. In addition to a proposal to elect two Class II Directors to the Board of Directors (the Board ) of ZIF, stockholders are being asked to consider a proposal to approve the merger of ZIF with and into Western Asset High Income Fund II Inc. ( HIX, and together with ZIF, the Funds ) in accordance with the Maryland General Corporation Law (the Merger ). The attached Proxy Statement/Prospectus asks for your approval of the proposed Merger. **After careful consideration, the Board of ZIF recommends that you vote FOR the proposed Merger.**

As a result of the Merger, stockholders of ZIF common stock would receive an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of HIX, based on the net asset value of each Fund on the date preceding the Merger. HIX would not issue fractional shares to ZIF stockholders. In lieu of issuing fractional shares, HIX would pay cash to each former holder of ZIF common stock ( ZIF Common Stockholders ) in an amount equal to the value of the fractional shares of ZIF common stock that an investor would otherwise have received in the Merger. The currently issued and outstanding shares of common stock of HIX would remain issued and outstanding. In addition, holders of ZIF Auction Rate Cumulative Preferred Stock ( ZIF Preferred Stockholders ) would receive cash in the amount of the required liquidation preference of \$25,000 per share plus accrued and unpaid dividends payable on each share.

Both HIX and ZIF are closed-end, diversified management investment companies listed on the New York Stock Exchange, with similar investment objectives. ZIF's investment objective is to seek high current income by investing in a diversified portfolio of high-yield, lower rated fixed-income securities. In contrast, HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income. The term "lower rated" is meant to describe the quality of the fixed-income securities in which ZIF may invest, and is not meant to imply that ZIF invests in fixed-income securities that are lower-rated than the high-yield debt securities in which HIX may invest. A more detailed comparison of the Funds' investment objectives and policies appears in the attached Proxy Statement/Prospectus. The current investment objectives and policies of HIX will continue unchanged if the Merger occurs.

The Funds have similar investment objectives of investing in a diversified portfolio of high-yield, lower rated debt securities. ZIF is a small fund with approximately \$46.4 million in net assets as of March 31, 2008 and currently has higher total operating expenses than HIX. HIX is a much larger fund with approximately \$834.8 million in net assets as of April 30, 2008. In addition, ZIF uses Auction Rate Cumulative Preferred Stock ("Preferred Stock") as its leverage strategy with approximately \$35 million Preferred Stock outstanding, whereas HIX uses bank borrowings as its leverage strategy. The Board believes that combining the two Funds could benefit ZIF Common Stockholders by providing, among other things, lower expenses as well as greater asset diversification, enhanced market liquidity and economies of scale as part of a larger Fund. While the proposed

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transaction is intended principally to achieve these benefits, the Board also believes that ZIF Preferred Stockholders, under current market conditions, would benefit by receiving cash in the amount of the required liquidation preference in exchange for the Preferred Stock they currently own.

**Your vote is very important to us regardless of the number of shares you own. Whether or not you plan to attend the Meeting in person, please read the Proxy Statement/Prospectus and cast your vote promptly. To vote, simply date, sign and return the proxy card in the enclosed postage-paid envelope or follow the instructions on the proxy card for voting by touch-tone telephone or on the Internet.**

If you have any questions about the proposals to be voted on, please call Broadridge Investor Communications Solutions at 1-866-414-6349.

It is important that your vote be received no later than the time of the Meeting.

Sincerely,

R. Jay Gerken

President and Chief Executive Officer

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**WESTERN ASSET ZENIX INCOME FUND INC.**

**IMPORTANT NEWS FOR STOCKHOLDERS**

The enclosed combined Proxy Statement/Prospectus describes a proposal to elect two Class II Directors to ZIF's Board of Directors and a proposal to merge Western Asset Zenix Income Fund Inc. ( ZIF ) with and into Western Asset High Income Fund II Inc. ( HIX, and together with ZIF, the Funds ) in accordance with the Maryland General Corporation Law.

While we encourage you to read the full text of the enclosed combined Proxy Statement/Prospectus, here is a brief overview of the matters that will be considered at the Annual Meeting of Stockholders (the Meeting ) of ZIF. Please refer to the more complete information contained elsewhere in the combined Proxy Statement/Prospectus about election of directors and the merger.

**COMMON QUESTIONS ABOUT THE PROPOSED MERGER**

**Q. Why am I receiving the Proxy Statement/Prospectus?**

A. You are being asked to vote in favor of proposals to:

1. elect two Class II Directors to the Board of Directors of Western Asset Zenix Income Fund Inc.
2. approve the merger of Western Asset Zenix Income Fund Inc. with and into Western Asset High Income Fund II Inc. in accordance with the Maryland General Corporation Law.

**Q. How does the Board of Directors suggest that I vote on the election of Directors?**

A. After careful consideration, the Board of Directors (the Board) of ZIF unanimously recommends that you vote FOR each of the nominees for Director.

**Q. How will the merger affect me?**

A. If the merger is approved, ZIF will be merged with and into HIX in accordance with the Maryland General Corporation Law. ZIF's assets and liabilities will be combined with the assets and liabilities of HIX, holders of ZIF common stock (ZIF Common Stockholders) will become stockholders of HIX and holders of ZIF Auction Rate Cumulative Preferred Stock (ZIF Preferred Stockholders) will receive cash in the amount of the required liquidation preference of \$25,000 per share plus accrued and unpaid dividends payable on each share. Proceeds for the payment of ZIF Preferred Stockholders will be provided by additional drawdowns of the current HIX credit facility.

As a result of the merger, ZIF Common Stockholders would receive an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of HIX, based on the net asset value of each Fund on the date preceding the merger. HIX would not issue fractional shares to ZIF stockholders. In lieu of issuing fractional shares, HIX would pay cash to each former ZIF Common Stockholder in an amount equal to the value of the fractional shares of ZIF common stock that an investor would otherwise have received in the merger. ZIF Preferred Stockholders would receive cash in the amount of the required liquidation preference of \$25,000 per share plus accrued and unpaid dividends payable on each share. The currently issued and outstanding shares of common stock of HIX will remain issued and outstanding.

**Q. Why is the merger being recommended?**

A. The Funds have similar investment objectives of investing in a diversified portfolio of high-yield, lower rated fixed-income securities. ZIF is a small fund with approximately \$46.4 million in net assets as of March 31, 2008 and currently has higher total operating expenses than HIX. HIX is a much larger fund with approximately \$834.8 million in net assets as of April 30, 2008. The Board believes that combining the two Funds could benefit ZIF Common Stockholders by providing, among other things, lower expenses as well as greater asset diversification, enhanced market liquidity and economies of scale as part of a larger Fund. While the proposed transaction is intended principally to achieve these benefits, the Board also believes that ZIF Preferred Stockholders, under current market conditions, would benefit by receiving cash in the amount of the required liquidation preference in exchange for the Preferred Stock they currently own.

ZIF uses preferred stock as its leverage strategy with approximately \$35 million of preferred stock outstanding, whereas HIX uses bank borrowings for its leverage strategy. HIX currently has a committed 364-day credit facility with a total commitment amount of \$325 million, of which \$75 million is currently available. As of April 30, 2008, HIX had borrowings

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equal to approximately 23% of its total assets (including the amount borrowed), or approximately \$250 million. The credit facility will expire on December 21, 2008 and may terminate earlier upon the occurrence of certain specified events. Proceeds for the payment to ZIF Preferred Stockholders will be provided by a drawdown of approximately \$35 million of the HIX credit facility. After the drawdown, the remaining amount available under the credit facility will be sufficient for HIX to continue its leverage strategy. While the permissible percentage of leverage in the combined Fund will be lower than the current level of leverage in ZIF, the Board believes that the credit facility provides additional flexibility to the portfolio managers to adjust its leverage when appropriate, in their judgment, to do so. There is no guarantee that HIX will be able to renegotiate its credit facility on terms as favorable as its current credit facility or that borrowing rates under the existing or future HIX credit agreements will remain below the dividend rates payable from time to time on ZIF's preferred stock.

At a meeting held on May 5, 2008, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

**Q. Are HIX's investment objectives and policies similar to those of ZIF?**

A. The Funds' investment objectives and policies are similar, but there are some differences.

ZIF's investment objective is to seek high current income by investing in a diversified portfolio of high-yield, lower rated fixed-income securities. In contrast, HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

Under normal market conditions, ZIF invests at least 65% of its total assets in high-yield, lower rated fixed-income securities. ZIF's lower rated fixed-income securities consist of fixed-income securities that are rated below investment grade, specifically securities rated BB to as low as C by Standard & Poor's Rating Group (S&P), or Ba to as low as C by Moody's Investors Services, Inc. (Moody's). ZIF may invest up to 35% of its total assets in investment grade fixed-income securities under normal market conditions and in excess of that amount during temporary defensive periods. ZIF may also invest up to 20% of its total assets in non-rated securities that the investment manager believes to be of a quality comparable to rated securities in which the Fund may invest and up to 10% of its total assets in securities traded principally in foreign markets.

Under normal market conditions, HIX invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities. HIX's high-yield debt securities consist of securities rated Baa or lower by Moody's or BBB or lower by S&P. In addition, HIX may invest up to 35% of its total assets in debt securities of issuers located in emerging market countries. It may also invest up to 30% of its assets in zero coupon securities, pay-in-kind bonds and deferred payment securities and up to 20% of its assets in equity securities.

The current investment objectives and policies of HIX will continue unchanged if the merger occurs.

Please see Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds' investment objectives and policies, and a summary of the principal risks of investing in the funds.

**Q. How will the merger affect Fund fees and expenses?**

A. ZIF currently pays Legg Mason Partners Fund Advisor, LLC ( LMPFA or the Manager ) an investment management fee, calculated daily and paid monthly, at an annual rate of 0.70% of ZIF's average daily net assets, including the liquidation value of any preferred stock. HIX currently pays LMPFA, which is also HIX's investment manager, for its services an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of HIX's average weekly net assets plus the proceeds of any outstanding borrowings used for leverage. The management fee for HIX as a percentage of fund assets would not change as a result of the merger.

Although HIX's management fee is higher than that of ZIF, HIX has a lower total fund expense ratio than ZIF. ZIF's expense ratio on net assets (including the cost of preferred dividend payments) was 5.26% at its fiscal year end. Excluding the cost of preferred dividend payments, ZIF's expense ratio on net assets was 1.70% at its fiscal year end. In contrast, HIX's expense ratio on net assets (including interest expense and commitment fees) was 2.94% at its fiscal year end. Excluding interest expense and commitment fees, HIX's expense ratio on net assets was 1.17% at its fiscal year end. Thus, HIX pays approximately 2.32% less in total expenses (including interest expense and commitment fees) and approximately 0.53% less in total expenses (excluding interest expense and commitment fees) based on net assets than ZIF.

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As a result of the merger, total expenses (including the cost of preferred dividend payments and interest expense, if any) paid by ZIF Common Stockholders are expected to decline from 5.26% to 3.04% in the combined Fund, a decline of 2.22%.

**Q. Will I have to pay any taxes as a result of the merger?**

A. The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). Assuming the merger qualifies for such treatment, ZIF Common Stockholders generally will not recognize a gain or loss for federal income tax purposes as a result of the merger. ZIF Common Stockholders may, however, recognize gain or loss with respect to cash such stockholders receive pursuant to the merger in lieu of fractional shares. The receipt of cash by ZIF Preferred Stockholders will be a taxable transaction for federal income tax purposes.

As a condition to the closing of the merger, ZIF and HIX will each receive an opinion of counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Opinions of counsel are not binding on the Internal Revenue Service or the courts. You should talk to your tax advisor about any state, local and other tax consequences of the merger. See Proposal 2 Information About the Proposed Merger Federal Income Tax Consequences.

**Q. Who will pay for the merger?**

A. The costs of the merger will be borne by LMPFA, the Funds' investment manager, and not by the Funds.

**Q. How does the Board recommend that I vote on the merger?**

A. ZIF's Board, including all of the Independent Directors, unanimously recommends that you vote FOR the merger.

**Q. What will happen if the merger is not approved?**

A. If the merger is not approved, ZIF will continue as a separate investment company, and ZIF's Board may consider such alternatives as it determines to be in the best interests of stockholders, including re-proposing the merger.

**Q. When is the merger expected to happen?**

A. If ZIF's stockholders approve the merger, the merger is expected to occur on or about September 19, 2008.

**Q. Will my vote make a difference?**



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A. Your vote is very important and can make a difference in the governance of ZIF, no matter how many shares you own. Your vote can help ensure that the proposals recommended by the Board can be implemented. We encourage all stockholders to participate in the governance of ZIF.

### **Q. Whom do I call if I have questions?**

A. If you need more information, or have any questions about voting, please call Broadridge Investor Communications Solutions, the Fund's proxy solicitor, at 1-866-414-6349.

### **Q. How do I vote my shares?**

A. You can provide voting instructions by telephone by calling the toll-free number on the enclosed proxy card or electronically by going to the Internet address provided on the proxy card and following the instructions, using your proxy card as a guide. Alternatively, you can vote your shares by signing and dating the enclosed proxy card and mailing it in the enclosed postage-paid envelope.

You may also attend the Meeting and vote in person. However, even if you intend to attend the Meeting, we encourage you to provide voting instructions by one of the methods described above.

**It is important that you vote promptly.**

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**WESTERN ASSET ZENIX INCOME FUND INC.**

**55 Water Street**

**New York, New York 10041**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**July 28, 2008**

To the Stockholders:

The Annual Meeting of Stockholders (the Meeting) of Western Asset Zenix Income Fund Inc. ( ZIF ) will be held at 620 Eighth Avenue, 49th Floor, New York, New York, on Friday, September 5, 2008 at 3:00 p.m., Eastern Standard Time, to consider and vote on the following proposals, as more fully described in the enclosed Proxy Statement/Prospectus:

1. A proposal to elect two Class II Directors to the Board of Directors of Western Asset Zenix Income Fund Inc.
2. A proposal to approve the merger of Western Asset Zenix Income Fund Inc. with and into Western Asset High Income Fund II Inc. in accordance with the Maryland General Corporation Law.
3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

**The Board of Directors recommends that you vote FOR each Proposal upon which you are being asked to vote.**

Stockholders of record at the close of business on July 11, 2008 are entitled to vote at the Meeting and at any adjournments or postponements thereof.

By Order of the Board of Directors,

Robert I. Frenkel  
Secretary

July 28, 2008

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**INSTRUCTIONS FOR SIGNING PROXY CARDS**

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. *Individual Accounts*: Sign your name exactly as it appears in the registration on the proxy card.

2. *Joint Accounts*: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.

3. *All Other Accounts*: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

	<b>Registration</b>	<b>Valid Signature</b>
<b>Corporate Accounts</b>		
(1) ABC Corp.	ABC Corp.	
	(by John Doe, Treasurer)	
(2) ABC Corp.	John Doe, Treasurer	
(3) ABC Corp.,		
c/o John Doe, Treasurer	John Doe	
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee	
<b>Trust Accounts</b>		
(1) ABC Trust	Jane B. Doe, Trustee	
(2) Jane B. Doe, Trustee,		
u/t/d 12/28/78	Jane B. Doe	
<b>Custodial or Estate Accounts</b>		
(1) John B. Smith, Cust.,		
f/b/o John B. Smith, Jr. UGMA	John B. Smith	
(2) John B. Smith	John B. Smith, Jr.,	
	Executor	

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**PROXY STATEMENT/PROSPECTUS**

**JULY 28, 2008**

**PROXY STATEMENT FOR:**

**WESTERN ASSET ZENIX INCOME FUND INC.**

**55 Water Street**

**New York, New York 10041**

**Tel. 888-777-1012**

**PROSPECTUS FOR:**

**WESTERN ASSET HIGH INCOME FUND II INC.**

**55 Water Street**

**New York, New York 10041**

**Tel. 888-777-1012**

This combined Proxy Statement and Prospectus (the "Proxy Statement/Prospectus") is being furnished in connection with the solicitation of proxies by the Board of Directors (the "Board" and each member being a "Director") of Western Asset Zenix Income Fund Inc. ("ZIF") for ZIF's 2008 Annual Meeting of Stockholders (the "Meeting"). The Meeting will be held on Friday, September 5, 2008 at 620 Eighth Avenue, 49th Floor, New York, New York at 3:00 p.m. Eastern Standard Time. At the Meeting, stockholders of ZIF will be asked to consider and act upon the following:

1. A proposal to elect two Class II Directors to the Board of Directors of Western Asset Zenix Income Fund Inc.
2. A proposal to approve the merger of Western Asset Zenix Income Fund Inc. with and into Western Asset High Income Fund II Inc. in accordance with the Maryland General Corporation Law.

3. The transaction of such other business as may be properly presented at the Meeting or any adjournments or postponements thereof.

If Proposal 2 is approved, as a result of the merger of ZIF with and into Western Asset High Income Fund II Inc. ( HIX and together with ZIF, the Funds ) in accordance with the Maryland General Corporation Law (the Merger ), each share of common stock, par value \$0.01 per share, of ZIF (the ZIF Common Stock ) would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock, par value \$0.001 per share, of HIX (the HIX Common Stock ), based on the net asset value of each Fund on the date preceding the Merger. HIX would not issue fractional shares of HIX Common Stock to holders of ZIF Common Stock. In lieu of issuing fractional shares, HIX would pay cash to each former holder of ZIF Common Stock in an amount equal to the value of the fractional shares of HIX Common Stock that investor would otherwise have received in the Merger. Although the HIX Common Stock received in the Merger would have the same total net asset value as the ZIF Common Stock held immediately before the Merger (disregarding fractional shares), their stock price on the New York Stock Exchange ( NYSE ) may be greater or less than that of the ZIF Common Stock, based on current market prices persisting at the time of the Merger. All HIX Common Stock currently issued and outstanding would remain issued and outstanding following the Merger.

In addition, holders of shares of preferred stock of ZIF, with a liquidation preference of \$25,000 per share, ( ZIF Preferred Stock ) would receive cash in the amount of the required liquidation preference plus accrued and unpaid dividends payable on each share.

The Board believes that combining the two Funds could benefit holders of ZIF Common Stock ( ZIF Common Stockholders ) by providing, among other things, lower expenses as well as greater asset diversification, enhanced market

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liquidity and economies of scale as part of a larger Fund. Although the Merger is intended principally to achieve these benefits, the Board also believes that holders of ZIF Auction Rate Cumulative Preferred Stock ( ZIF Preferred Stockholders ), under current market conditions, would benefit by receiving cash in the amount of the required liquidation preference in exchange for the Preferred Stock they currently own.

At a meeting held on May 5, 2008, the Board of Directors of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors ), unanimously approved an Agreement and Plan of Merger with respect to both Funds.

HIX was incorporated in Maryland on March 19, 1998; ZIF was incorporated in Maryland on February 11, 1988. Both HIX and ZIF are closed-end, diversified management investment companies listed on the NYSE.

ZIF's investment objective is to seek high current income by investing in a diversified portfolio of high-yield, lower rated fixed-income securities. In contrast, HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income. Although the term fixed-income securities encompasses preferred shares and other equity securities that pay a fixed return and the term debt securities does not include any type of equity security, the Manager for both Funds generally invests only in debt securities. Please see Proposal 2 Comparison of Investment Objectives, Strategies, and Principal Risks of Investing in the Funds in the Proxy Statement/Prospectus for a more complete comparison of the Funds' investment objectives and policies.

The Merger will be effected pursuant to an Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A. The material terms and conditions of the Agreement and Plan of Merger are summarized in this Proxy Statement/Prospectus. See Proposal 2 Information About the Proposed Merger The Agreement and Plan of Merger.

This Proxy Statement/Prospectus serves as a prospectus for HIX Common Stock under the Securities Act of 1933, as amended (the Securities Act ), in connection with the issuance of HIX Common Stock in the Merger.

Assuming ZIF Common Stockholders and ZIF Preferred Stockholders approve the Merger and all other conditions to the consummation of the Merger are satisfied or waived, the Funds will jointly file articles of merger (the Articles of Merger ) with the State Department of Assessments and Taxation in Maryland (the SDAT ). The Merger will become effective when the SDAT accepts for record the Articles of Merger or at such later time, which may not exceed 30 days after the Articles of Merger are accepted for record, as specified in the Articles of Merger. The date when the Articles of Merger are accepted for record, or the later date, is referred to in this Proxy Statement/Prospectus as the Closing Date. ZIF, as soon as practical after the Closing Date, will terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act ).

The Merger is being structured as a reorganization, which will generally be tax-free for the stockholders of ZIF Common Stock for federal income tax purposes. See Proposal 2 Information About the Proposed Merger Federal Income Tax Consequences. ZIF stockholders should consult their tax advisors to determine the actual impact of the Merger on them in light of their individual tax circumstances.

You should retain this Proxy Statement/Prospectus for future reference as it sets forth concisely information about HIX and ZIF that you should know before voting on the proposed Merger described below.

A Statement of Additional Information (the "SAI") dated July 28, 2008, which contains additional information about the Merger and the Funds, has been filed with the Securities and Exchange Commission (the "SEC"). The SAI, as well as HIX's Annual Report to Shareholders for the Fiscal Year Ended April 30, 2008, filed with the SEC on July 7, 2008 (accession no. 0001104659-08-044231) and ZIF's Annual Report to Shareholders for the Fiscal Year Ended March 31, 2008, filed with the SEC on June 2, 2008 (accession no. 0001104659-08-037274), which highlight certain important information such as investment performance and expense and financial information, are incorporated by reference into this Proxy Statement/Prospectus. In addition, shareholder reports, proxy materials and other information concerning HIX can be inspected at the NYSE. You may receive free of charge a copy of the SAI, or the annual report and semi-annual report for either Fund, by contacting Legg Mason Shareholder Services at 800-822-5544, by writing HIX at the address listed above or by visiting our website at [www.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors).



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In addition, you can copy and review this Proxy Statement/Prospectus and the complete filing on Form N-14 containing the Proxy Statement/Prospectus and any of the above-referenced documents at the SEC's Public Reference Room in Washington, DC. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090. Reports and other information about each Fund are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. You may also obtain copies of this information, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

HIX Common Stock is listed on the NYSE under the symbol HIX, and ZIF Common Stock is listed on the NYSE under the symbol ZIF. After the Closing Date, HIX Common Stock will continue to be listed on the NYSE under the symbol HIX.

The information contained herein concerning HIX and ZIF has been provided by, and is included herein in reliance upon, HIX and ZIF, respectively.

**The Securities and Exchange Commission has not approved or disapproved these securities nor passed upon the accuracy or adequacy of this Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.**

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**PROPOSAL 1 TO ELECT TWO CLASS II DIRECTORS TO ZIF S BOARD OF DIRECTORS**

**Background**

In accordance with ZIF s charter, ZIF s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of ZIF s Class II Directors expire at the Meeting. Stockholders are being asked to elect two Class II Directors at the Meeting to hold office until the consummation of the Merger or, if ZIF stockholders do not approve the Merger, until the 2011 Annual Meeting of Stockholders, or thereafter until his successor is duly elected and qualified. The term of office of each of the remaining Class I and Class III Directors expires at the 2010 or 2009 Annual Meeting of Stockholders, respectively, or thereafter when his or her successor is duly elected and qualified. The effect of these staggered terms is to limit the ability of other entities or persons to acquire control of the Fund by delaying the replacement of a majority of the Board of Directors.

Under the terms of ZIF s charter, the ZIF Preferred Stockholders are entitled as a class, to the exclusion of the ZIF Common Stockholders, to elect two Directors of the Fund (the Preferred Stock Directors ). Ms. Carol L. Colman and Mr. William R. Hutchinson have been designated as the Preferred Stock Directors. The Fund s charter also provides that the ZIF Common Stockholders are entitled as a class, to the exclusion of the ZIF Preferred Stockholders, to elect two Directors of the Fund (the Common Stock Directors ). Messrs. Paolo M. Cucchi and Daniel P. Cronin have been designated as the Common Stock Directors. The charter further provides that the remaining Directors shall be elected by holders of Common Stock and Preferred Stock, voting together as a single class. Of those designated as Preferred Stock Directors, none are nominated for election at the Meeting. Of those designated as Common Stock Directors, Mr. Cucchi is nominated for election at the Meeting. Therefore, holders of ZIF Common Stock, voting as a separate class, are being asked to vote for Mr. Cucchi, and holders of ZIF Common Stock and Preferred Stock, voting together as a single class, are being asked to vote for Mr. R. Jay Gerken at the Meeting.

Similarly, in accordance with HIX s charter, HIX s Board of Directors is also divided into three classes: Class I, Class II and Class III. The terms of office of HIX s Class I, Class II and Class III Directors expire at HIX s 2008, 2009 and 2010 Annual Meetings of Stockholders, respectively, or thereafter when his or her successor is duly elected and qualified. The same individuals (including the nominees for election to ZIF s Board of Directors) serve as the Directors of both HIX and ZIF.

The persons named in the proxy intend to vote at the Meeting (unless directed not to vote) FOR the election of the nominees named below. Each of the nominees is currently a member of ZIF s Board of Directors and has indicated that he will serve if elected. However, if any nominee should be unable to serve, the proxy will be voted for any other person determined by the persons named in the proxy in accordance with their judgment.

The following table provides information concerning the nominees for election as Directors of ZIF. These individuals are also currently Directors of HIX.

Name, Address and Age	Position(s) Held with the Funds	Length of Term Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex <sup>(1)</sup> Overseen by Nominee (Including the Fund)	Other Directorships Held by Nominee
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**NON-INTERESTED DIRECTORS**

Paolo M. Cucchi	Director and Member of Audit and Nominating Committees: Class II (HIX), Class II (ZIF)	Since 2007 (HIX)	Vice President and Dean of College of Liberal Arts at Drew University	25	None
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c/o Chairman of the Fund

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

Birth year: 1941

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<b>Name, Address and Age</b>	<b>Position(s) Held with the Funds</b>	<b>Length of Term Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex<sup>(1)</sup> Overseen by Nominee (Including the Fund)</b>	<b>Other Directorships Held by Nominee</b>
<b>INTERESTED DIRECTOR</b> R. Jay Gerken, CFA <sup>(2)</sup>	Chairman, CEO, President and Director;	Since 2002 (HIX)	Managing Director of Legg Mason, Chairman, President and Chief Executive Officer of Smith Barney Fund Management LLC and Citi Fund Management Inc. ( CFM ); President and Chief Executive Officer of certain mutual funds associated with Legg Mason; formerly, Portfolio Manager of Smith Barney Allocation Series Inc. (1996 2001) Chairman of the Board, Trustee and Director of 133 funds associated with Legg Mason Partners Fund Advisor, LLC or its affiliates	138	Trustee, Consulting Group Capital Markets Fund
Legg Mason, Inc. 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1951	Class III (HIX), Class II (ZIF)	Since 2002 (ZIF)			

The following table provides information concerning the remaining Directors of HIX and ZIF:

<b>Name, Address and Age</b>	<b>Position(s) Held with the Funds</b>	<b>Length of Term Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex<sup>(1)</sup> Overseen by Nominee (Including the Fund)</b>	<b>Other Directorships Held by Nominee</b>
<b>NON-INTERESTED DIRECTORS</b> Carol L. Colman	Director and Member of Audit and Nominating Committees;	Since 2002 (HIX)	President, Colman Consulting Co.	25	None
c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1946	Class III (HIX), Class I (ZIF)	Since 2007 (ZIF)			
Daniel P. Cronin	Director and Member of Audit and Nominating Committees;	Since 2002 (HIX)	Retired; formerly, Associate General Counsel, Pfizer, Inc.	25	None
c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1946	Class I (HIX), Class I (ZIF)	Since 2007 (ZIF)			

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<p>Leslie H. Gelb</p> <p>c/o Chairman of the Fund</p> <p>620 Eighth Avenue,</p> <p>49th Floor</p> <p>New York, NY 10018</p> <p>Birth year: 1937</p>	<p>Director and Member of Audit and Nominating Committees; Class II (HIX), Class I (ZIF)</p>	<p>Since 2001 (HIX)</p> <p>Since 2007 (ZIF)</p>	<p>President Emeritus and Senior Board Fellow, The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, <i>The New York Times</i></p>	<p>25</p>	<p>Director of two registered investment companies advised by Blackstone Advisors</p>
<p>William R. Hutchinson</p> <p>c/o Chairman of the Fund</p> <p>620 Eighth Avenue,</p> <p>49th Floor</p> <p>New York, NY 10018</p> <p>Birth year: 1942</p>	<p>Director and Member of Audit and Nominating Committees; Class III (HIX), Class III (ZIF)</p>	<p>Since 2003 (HIX)</p> <p>Since 1995 (ZIF)</p>	<p>President, W.R. Hutchinson &amp; Associates Inc. (consulting); formerly, Group Vice President, Mergers and Acquisitions, BP Amoco p.l.c.</p>	<p>25</p>	<p>Director of Associated Banc-Corp.</p>
<p>Dr. Riordan Roett</p> <p>c/o Chairman of the Fund</p> <p>620 Eighth Avenue,</p> <p>49th Floor</p> <p>New York, NY 10018</p> <p>Birth year: 1938</p>	<p>Director and Member of Audit and Nominating Committees; Class II (HIX), Class III (ZIF)</p>	<p>Since 1998 (HIX)</p> <p>Since 2007 (ZIF)</p>	<p>Professor and Director, Latin American Studies Program, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University</p>	<p>25</p>	<p>None</p>



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<b>Name, Address and Age</b>	<b>Position(s) Held with the Funds</b>	<b>Length of Term Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex<sup>(1)</sup> Overseen by Nominee (Including the Fund)</b>	<b>Other Directorships Held by Nominee</b>
Jeswald W. Salacuse c/o Chairman of the Fund 620 Eighth Avenue, 49th Floor New York, NY 10018 Birth year: 1938	Director and Member of Nominating and Audit Committees; Class I (HIX), Class III (ZIF)	Since 1998 (HIX) Since 2007 (ZIF)	Henry J. Braker Professor of Commercial Law; formerly, Dean, The Fletcher School of Law & Diplomacy, Tufts University	24	Director of two registered investment companies advised by Blackstone Asia Advisors L.L.C. ( Blackstone Advisors )

(1) The term "Fund Complex" means two or more registered investment companies that:

- Hold themselves out to investors as related companies for purposes of investment and investor services; or
- Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

(2) Mr. Gerken is an "interested person" as defined in the Investment Company Act of 1940, as amended (the "1940 Act"), because he is an employee of Legg Mason, the parent company of the Funds' investment adviser.

**Security Ownership of Management**

The following table provides information concerning the dollar range of equity securities owned beneficially by each Director and nominee for election as Director as of December 31, 2007:

<b>Name of Director/Nominee</b>	<b>Dollar Range<sup>(1)</sup> of Equity Securities in HIX</b>	<b>Dollar Range<sup>(1)</sup> of Equity Securities in ZIF</b>	<b>Aggregate Dollar Range<sup>(2)</sup> of Equity Securities in all Funds Overseen by Director/Nominee in Family of Investment Companies<sup>(2)</sup></b>
<b>NON-INTERESTED DIRECTORS</b>			
Carol L. Colman	A	B	E
Daniel P. Cronin	D	C	E
Paolo M. Cucchi	A	A	C
Leslie H. Gelb	A	A	A
William R. Hutchinson	C	A	E
Dr. Riordan Roett	A	B	C
Jeswald W. Salacuse	A	A	C
<b>INTERESTED DIRECTOR</b>			
R. Jay Gerken	C	C	E

(1) The dollar ranges are as follows: A = None; B = \$1-\$10,000; C = \$10,001-\$50,000; D = \$50,001-\$100,000; E = Over \$100,000.

(2) Family of Investment Companies means any two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for purposes of investment and investor services.

At July 11, 2008, the Directors and officers of the Funds as a group beneficially owned less than 1% of the outstanding shares of each Fund's common stock.

No Director or nominee for election as Director who is not an interested person of the Funds as defined in the 1940 Act, nor any immediate family members, to the best of the Funds' knowledge, had any interest in the Funds' investment adviser, or any person or entity (other than the Funds) directly or indirectly controlling, controlled by, or under common control with Legg Mason as of December 31, 2007.

**Table of Contents****Director Compensation**

Under the federal securities laws, and in connection with the Meeting, a fund is required to provide to stockholders in connection with the Meeting information regarding compensation paid to the Directors by the fund, as well as by the various other investment companies advised by LMPFA. The following table provides information concerning the compensation paid to each Director by the Funds during the fiscal years ended April 30, 2008 for HIX and March 31, 2008 for ZIF, and the total compensation paid to each Director during the calendar year ended December 31, 2007. Certain of the Directors listed below are members of each Fund's Audit and Nominating Committees, as well as other committees of the boards of certain other investment companies advised by LMPFA. Accordingly, the amounts provided in the table include compensation for service on all such committees. The Funds do not provide any pension or retirement benefits to Directors. In addition, no remuneration was paid during the fiscal years ended April 30, 2008 and March 31, 2008 by HIX and ZIF, respectively, to Mr. Gerken who is an interested person as defined in the 1940 Act.

Name of Directors	Aggregate Compensation from HIX for Fiscal Year Ended 4/30/08	Aggregate Compensation from ZIF for Fiscal Year Ended 3/31/08	Total Compensation from the Fund and Fund Complex <sup>(1)</sup> for Calendar Year Ended 12/31/07	Directorships <sup>(2)</sup>
Carol L. Colman	\$ 26,484	\$ 3,215	\$ 326,112.63	22
Daniel P. Cronin	23,885	2,001	192,450.00	22
Paolo M. Cucchi	23,885	3,001	174,250.00	22
Leslie H. Gelb	25,174	800	178,250.00	22
William R. Hutchinson	26,519	3,203	368,239.68	22
Dr. Riordan Roett	25,501	800	180,250.00	22
Jeswald W. Salacuse	32,140	600	187,250.00	22

(1) Fund Complex means two or more Funds (a registrant or, where the registrant is a series company, a separate portfolio of the registrant) that hold themselves out to investors as related companies for purposes of investment and investor services or have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other Funds.

(2) The numbers indicate the applicable number of investment companies in the Fund Complex overseen by that Director as of December 31, 2007.

**Responsibilities of the Board of Directors**

Each Fund's Board of Directors is responsible for ensuring that the Fund is managed in the best interest of its stockholders. The Directors oversee the Funds' business by, among other things, meeting with the Funds' management and evaluating the performance of the Funds' service providers including Legg Mason Partners Fund Advisor, LLC (LMPFA or the Manager), Western Asset Management Company (Western Asset) and Western Asset Management Company Limited (Western Asset Limited) (for ZIF only), the Funds' custodian and the Funds' transfer agent. As part of this process, the Directors consult with the Funds' independent auditors and with their own separate independent counsel.

Each Fund's Board of Directors has four regularly scheduled meetings each year, and additional meetings are scheduled as needed. In addition, each Board has an Audit Committee and a Nominating Committee that meet periodically and whose responsibilities are described below.

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During HIX's fiscal year ended April 30, 2008, HIX's Board of Directors held four regular meetings and two special meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. HIX does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended HIX's 2007 Annual Meeting of Stockholders.

During ZIF's fiscal year ended March 31, 2008, ZIF's Board of Directors held four regular meetings and two special meetings. Each Director attended at least 75% of the aggregate number of meetings of the Board and the committees for which he or she was eligible. ZIF does not have a formal policy regarding attendance by Directors at annual meetings of stockholders. Mr. Gerken attended ZIF's 2007 Annual Meeting of Stockholders.

Each Fund's Directors review the Fund's financial statements, performance and market price as well as the quality of the services being provided to the Fund. As part of this process, the Directors review each Fund's fees and expenses to determine if they are reasonable and competitive in light of the services being received and while also ensuring that each Fund continues to have access to high quality services in the future. Based on these reviews, the Directors periodically make suggestions to the Funds' management and monitor to ensure that responsive action is taken. The Directors also monitor potential conflicts of interest among the Funds, LMPFA and its affiliates and other funds and clients managed by LMPFA and Western Asset to ensure that each Fund is managed in a manner which is in the best interest of the Fund's stockholders.

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### **Audit Committee**

Each Fund's Audit Committee is composed of all Directors of that Fund who have been determined not to be interested persons of the Fund, LMPFA or its affiliates within the meaning of the 1940 Act, and who are independent as defined in the NYSE listing standards. Currently, each Fund's Audit Committee is composed of Ms. Colman, Messrs. Cronin, Cucchi, Gelb, Hutchinson and Salacuse and Dr. Roett. The principal functions of each Fund's Audit Committee are to (a) oversee the scope of the Fund's audit, the Fund's accounting and financial reporting policies and practices and its internal controls and enhance the quality and objectivity of the audit function; (b) approve, and recommend to the Independent Board Members (as such term is defined in the Audit Committee Charter) for their ratification, the selection, appointment, retention or termination of the Fund's independent registered public accounting firm, as well as approving the compensation thereof; and (c) approve all audit and permissible non-audit services provided to the Fund and certain other persons by the Fund's independent registered public accounting firm.

HIX's Audit Committee met two times during HIX's fiscal year ended April 30, 2008. HIX's Board of Directors adopted an amended Audit Committee Charter at a meeting held on November 17, 2006, a copy of which was filed as Annex A to HIX's Proxy Statement dated June 26, 2007.

ZIF's Audit Committee met two times during ZIF's fiscal year ended March 31, 2008. ZIF's Board of Directors adopted an amended Audit Committee Charter at a meeting held on February 15, 2007, a copy of which was filed as Annex A to ZIF's Proxy Statement dated June 27, 2007.

### **Nominating Committee**

Each Fund's Nominating Committee, the principal function of which is to select and nominate candidates for election as Directors of the Fund, is currently composed of Ms. Colman, Messrs. Cronin, Cucchi, Gelb, Hutchinson and Salacuse and Dr. Roett. Only Directors who are not interested persons of the Funds as defined in the 1940 Act and who are independent as defined in the NYSE listing standards are members of each Fund's Nominating Committees. Each Fund's Nominating Committee may accept nominees recommended by the Fund's stockholders as it deems appropriate. Stockholders of a Fund who wish to recommend a nominee should send recommendations to the Fund's Secretary that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors. A recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

HIX's Nominating Committee met once during HIX's fiscal year ended April 30, 2008. HIX's Board of Directors adopted a Nominating Committee Charter at a meeting held on January 20, 2004, a copy of which was filed as Annex B to HIX's Proxy Statement dated June 26, 2007.

ZIF's Nominating Committee met once during ZIF's fiscal year ended March 31, 2008. ZIF's Board of Directors adopted a Nominating Committee Charter at a meeting held on February 11, 2004, a copy of which was filed as Annex B to ZIF's Proxy Statement dated June 27, 2007.

Each Fund's Nominating Committee identifies potential nominees through its network of contacts, and may also engage, if it deems appropriate, a professional search firm. Each Fund's Nominating Committee meets to discuss and consider such candidates' qualifications and then chooses a candidate by majority vote. Neither Fund's Nominating Committee has specific, minimum qualifications for nominees and has not established specific qualities or skills that it regards as necessary for one or more of the Fund's Directors to possess (other than any qualities or skills that

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may be required by applicable law, regulation or listing standard). However, as set forth in each Fund's Nominating Committee Charter, in evaluating a person as a potential nominee to serve as a Director of the Fund, each Fund's Committee may consider the following factors, among any others it may deem relevant:

whether or not the person is an interested person as defined in the 1940 Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director of the Fund;

whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment manager of the Fund, other Fund service providers or their affiliates;

whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes;

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whether or not the person is willing to serve, and willing and able to commit the time necessary for the performance of the duties of a Director of the Fund;

the contribution which the person can make to the Board and the Fund (or, if the person has previously served as a Director of the Fund, the contribution which the person made to the Board during his or her previous term of service), with consideration being given to the person's business and professional experience, education and such other factors as the Nominating Committee may consider relevant;

the character and integrity of the person; and

whether or not the selection and nomination of the person would be consistent with the requirements of the Fund's retirement policies.

**Officers**

Each Fund's executive officers are chosen each year, at a regular meeting of the Board of Directors of the Fund, to hold office until their respective successors are duly elected and qualified. The same individuals serve as officers of both HIX and ZIF. In addition to Mr. Gerken, each Fund's Chairman, CEO and President, the executive officers of the Funds currently are:

Name, Address and Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Kaprel Ozsolak  Legg Mason  55 Water Street  New York, NY 10041	Chief Financial Officer and Treasurer	Since 2007 (HIX) Since 2004 (ZIF)	Director of Legg Mason; Chief Financial Officer and Treasurer of certain mutual funds associated with Legg Mason; Formerly, Controller of certain mutual funds associated with certain predecessor firms of Legg Mason (2002-2004)
Birth year: 1965  Ted P. Becker  Legg Mason  620 Eighth Avenue,  49th Floor  New York, NY 10018	Chief Compliance Officer	Since 2006 (HIX) Since 2006 (ZIF)	Director of Global Compliance at Legg Mason (since 2006); Managing Director of Compliance at Legg Mason, (since 2005); Chief Compliance Officer with certain mutual funds associated with Legg Mason (since 2006); Managing Director of Compliance at Legg Mason or its predecessors (2002-2005). Prior to 2002, Managing Director Internal Audit & Risk Review at Citigroup Inc.
Birth year: 1951  Robert I. Frenkel  Legg Mason  300 First Stamford Place	Secretary and Chief Legal Officer	Since 2003 (HIX) Since 2003 (ZIF)	Managing Director and General Counsel of Global Mutual Funds for Legg Mason and its predecessor (since 1994); Secretary and Chief Legal Officer of mutual funds associated with Legg Mason (since 2003); formerly, Secretary of CFM (2001-2004)

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Stamford, CT 06902

Birth year: 1954

Thomas S. Mandia	Assistant Secretary	Since 2006 (HIX)	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005); Managing Director and Deputy General Counsel for Citigroup Asset Management (since 1992); Assistant Secretary of certain mutual funds associated with Legg Mason
Legg Mason		Since 2006 (ZIF)	

300 First Stamford Place,

Stamford, CT 06902

Birth year: 1962

Steven Frank	Controller	Since 2005 (HIX)	Vice President of Legg Mason (since 2002); Controller of certain funds associated with Legg Mason or its predecessors (since 2005); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason predecessors (from 2001 to 2005)
Legg Mason		Since 2005 (ZIF)	

55 Water Street,

New York, NY 10041

Birth year: 1967

Albert Laskaj	Controller	Since 2007 (HIX)	Controller of certain mutual funds associated with Legg Mason (Since 2007); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason (from 2005 to 2007); Formerly, Accounting Manager of certain mutual funds associated with certain predecessor firms of Legg Mason (from 2003 to 2005)
Legg Mason		Since 2007 (ZIF)	

55 Water Street,

New York, NY 10041

Birth year: 1977



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### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, and Section 30(h) of the 1940 Act in combination require each Fund's Directors and principal officers, persons who own more than 10% of a Fund's common stock, LMPFA and Western Asset and their respective directors and principal officers, to file reports of ownership and changes in ownership with the SEC and the NYSE. These persons and entities are required by SEC regulation to furnish each Fund with copies of all such forms they file. Based solely on a review of these forms furnished to each Fund, HIX believes that for its fiscal year ended April 30, 2008, and ZIF believes that for its fiscal year ended March 31, 2008, that all relevant persons have complied with applicable filing requirements; with the exception of a Form 3 submission by Charles J. Daley, which was inadvertently not filed in a timely manner. However, Mr. Daley did not buy or sell shares of either Fund prior to a late Form 3 filing, and has since made the required Form 3 filings.

### **Report of the Audit Committee (ZIF)**

Pursuant to a meeting of the Audit Committee on May 23, 2008, the Audit Committee reports that it has (i) reviewed and discussed ZIF's audited financial statements with management; (ii) discussed with KPMG LLP ( "KPMG" ), the independent registered public accounting firm of ZIF, the matters required to be discussed by Statement on Auditing Standards No. 61; and (iii) previously received written confirmation from KPMG that it is independent and written disclosures regarding such independence as required by Independence Standards Board Standard No. 1, and discussed with KPMG the independent registered public accounting firm's independence.

Pursuant to the Audit Committee Charter adopted by ZIF's Board, the Audit Committee is responsible for conferring with ZIF's independent registered public accounting firm, reviewing annual financial statements and recommending the selection of ZIF's independent registered public accounting firm. The Audit Committee advises the full Board with respect to accounting, auditing and financial matters affecting ZIF. The independent registered public accounting firm is responsible for planning and carrying out the proper audits and reviews of ZIF's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are responsible for oversight. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principals and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of ZIF's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on the review and discussions referred to in items (i) through (iii) above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in ZIF's annual report for the Fund's fiscal year ended March 31, 2008.

Submitted by the Audit Committee

of ZIF s Board of Directors

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Dr. Riordan Roett

Jeswald W. Salacuse

May 23, 2008

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**Board Recommendation and Required Vote**

The election of Mr. Cucchi requires a plurality of the votes cast by the holders of ZIF Common Stock voting separately as a class, to the exclusion of ZIF Preferred Stockholders. The election of Mr. Gerken requires a plurality of the votes cast by the holders of ZIF Common Stock and ZIF Preferred Stock, voting together as a single class, present in person or represented by proxy at a Meeting at which a quorum is present. For purposes of the election of Directors, abstentions and broker non-votes will not be considered votes cast, and do not affect the plurality vote required for Directors.

**ZIF's Board of Directors unanimously recommends that stockholders of ZIF vote FOR each of the nominees for Director.**

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**PROPOSAL 2 TO APPROVE THE MERGER OF ZIF WITH AND INTO HIX IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW**

**SUMMARY**

*This summary is qualified in its entirety by reference to the additional information contained elsewhere in this Proxy Statement/Prospectus and the Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A.*

**Background**

HIX was incorporated in Maryland in March 1998 and is registered as a diversified, closed-end management investment company under the 1940 Act. HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

ZIF was incorporated in Maryland in February 1988 and is registered as a diversified, closed-end management investment company under the 1940 Act. ZIF's investment objective is to seek high current income by investing in a diversified portfolio of high-yield, lower rated fixed-income securities. Under normal market conditions, ZIF invests at least 65% of its total assets in high-yield fixed-income securities. These securities are commonly known as "junk bonds" because they are rated in the lower categories by nationally recognized rating agencies (consisting of fixed-income securities rated BB to as low as C by Standard & Poor's Rating Group (S&P) or Ba to as low as C by Moody's Investors Services, Inc. (Moody's)). ZIF may invest up to 35% of its total assets in investment grade fixed-income securities under normal market conditions and in excess of that amount during temporary defensive periods. ZIF may also invest up to 20% of its total assets in non-rated securities that the Manager believes to be of a quality comparable to rated securities in which the Fund may invest and up to 10% of its total assets in securities traded principally in foreign markets.

ZIF is a small fund with approximately \$46.4 million in net assets as of March 31, 2008, and approximately \$35 million in outstanding Preferred Stock. HIX is a much larger fund with approximately \$834.8 million in net assets as of April 30, 2008. In addition, ZIF currently has higher total operating expenses than HIX.

LMPFA and Western Asset, the Funds' subadviser, each believes, and has advised the Boards of ZIF and HIX, that combining the two Funds could benefit ZIF Common Stockholders by providing, among other things, lower expenses as well as greater asset diversification, enhanced market liquidity and economies of scale as part of a larger fund. HIX does not use Preferred Stock as its leverage strategy; rather HIX has a credit facility with a total commitment of \$325 million. While the merger is intended principally to achieve the foregoing benefits, LMPFA and Western Asset each also believes that, under current market conditions, ZIF Preferred Stockholders would benefit by receiving cash in the amount of the required liquidation preference in exchange for the Preferred Stock they currently own.

**Proposed Merger**

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In light of the above and the beliefs of LMPFA and Western Asset, the Board of ZIF believes the Merger of ZIF into HIX, a Fund with similar investment objectives of investing in high-yield lower rated debt securities, could benefit ZIF Common Stockholders by providing, among other things, the potential for economies of scale, a lower operating expense ratio and enhanced market liquidity due to the increase in float of the combined Fund's shares. The Board of ZIF also believes the Merger could benefit ZIF Preferred Stockholders, under current market conditions, by providing them with cash in exchange for the Preferred Stock they currently own. Proceeds for the payment of ZIF Preferred Stockholders will be provided by additional drawdowns of the HIX credit facility.

HIX currently has a credit facility with a total commitment amount of \$325 million, of which \$75 million is currently available. As of April 30, 2008, HIX had borrowings equal to approximately 23% of its total assets (including the amount borrowed), or approximately \$250 million. While the permissible percentage of leverage in the combined Fund will be lower than the current level of leverage in ZIF, the Board believes that the credit facility provides additional flexibility to the portfolio managers to adjust its leverage when appropriate, in their judgment, to do so. There is no guarantee that HIX will be able to renegotiate its credit facility on terms as favorable as its current credit facility or that borrowing rates under the existing or future HIX credit agreements will remain below the dividend rates payable from time to time on ZIF's Preferred Stock.

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At a meeting held on May 5, 2008, the Boards of ZIF and HIX, including all of the Independent Directors, in accordance with recommendations by LMPFA and Western Asset, unanimously approved the Agreement and Plan of Merger with respect to each Fund. As a result of the Merger:

each share of ZIF Common Stock will convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of HIX Common Stock, based on the net asset value per share of each Fund calculated at 4:00 p.m. on the Business Day preceding the Closing Date;

each holder of ZIF Common Stock will become a holder of HIX Common Stock and will receive, on the Closing Date, that number of shares of HIX Common Stock having an aggregate net asset value (disregarding fractional shares) equal to the aggregate net asset value of such stockholder's ZIF Common Stock as of the close of business on the Business Day preceding the Closing Date;

HIX will not issue any fractional shares of Common Stock to its stockholders. In lieu thereof, HIX will pay cash to each former holder of ZIF Common Stock in an amount equal to the value of the fractional shares of HIX Common Stock that investor would otherwise have received in the Merger; and

each holder of ZIF Preferred Stock will receive, on the Closing Date, cash for the Preferred Stock, par value \$0.01 per share, in the amount of the required liquidation preference of \$25,000 per share plus accrued and unpaid dividends payable on each share (the Preferred Merger Consideration).

Proceeds for the payment to ZIF Preferred Stockholders will be provided by a drawdown of approximately \$35 million of the HIX credit facility. HIX currently has a committed 364-day credit facility with a total commitment amount of \$325 million, of which \$75 million is currently available. The impact on HIX's expense ratio as a result of the drawdown is 0.20%. There will be no adverse impact on HIX's asset coverage ratio as a result of the drawdown.

If the Merger is not approved, ZIF will continue as a separate investment company, and the Board of ZIF may consider such alternatives as it determines to be in the best interests of stockholders, including re-proposing the Merger.

For the reasons set forth below in Information About the Proposed Merger Reasons for the Merger and Board Considerations, the Board of ZIF, including all of the Independent Directors, has concluded that the Merger would be in the best interests of ZIF, and that the interests of the holders of Common Stock of ZIF would not be diluted as a result of the Merger. **The Board, therefore, is hereby submitting the Merger to the ZIF Common and Preferred Stockholders and recommends that stockholders of ZIF vote FOR the Merger.**

The Merger has been approved unanimously by ZIF's Board of Directors, including all of the Independent Directors of ZIF. Under ZIF's charter, approval of the Merger requires (1) the affirmative vote of a majority of all of the votes entitled to be cast on the matter, voting together, (2) the affirmative vote of a majority of the outstanding shares of Common Stock, voting separately and (3) the affirmative vote of a majority of the outstanding shares of Preferred Stock, voting separately. See Voting Information below. If stockholders of ZIF approve the Merger, the Closing Date of the Merger is expected to be on or about September 19, 2008. Under the Maryland General Corporation Law, the stockholders of HIX are not required to approve the Merger. Furthermore, because of the relative sizes of HIX and ZIF, NYSE rules do not require stockholders of HIX to approve the Merger.

Prior to completion of the Merger, ZIF and HIX will each have received an opinion of Simpson Thacher & Bartlett LLP to the effect that the Merger will qualify as a reorganization for federal income tax purposes. Accordingly, for federal income tax purposes, (i) no gain or loss will generally be recognized by ZIF or the holders of ZIF Common Stock as a result of the Merger, (ii) the aggregate tax basis of the HIX Common

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Stock (including that of fractional shares of HIX Common Stock purchased by HIX) received by the holders of ZIF Common Stock will be the same as the aggregate tax basis of the holders' ZIF Common Stock and (iii) a holder's holding period for HIX Common Stock (including that of fractional shares of HIX Common Stock purchased by HIX) will generally be determined by including the period for which he or she held ZIF Common Stock converted pursuant to the Merger, provided that such shares were held as capital assets. Holders of ZIF Common Stock may, however, recognize gain or loss with respect to cash such holders receive pursuant to the Merger in lieu of fractional shares. The receipt of Preferred Merger Consideration by ZIF Preferred Stockholders will be a taxable transaction for federal income tax purposes. For more information about the federal income tax consequences of the Merger, see [Information about the Proposed Merger](#) Federal Income Tax Consequences [below](#).

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### **Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks**

HIX and ZIF have similar investment objectives and policies, but there are some differences.

ZIF's investment objective is to seek high current income by investing in a diversified portfolio of high-yield, lower rated fixed-income securities. In contrast, HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.

Under normal market conditions, ZIF invests at least 65% of its total assets in high-yield fixed-income securities. These securities are commonly known as "junk bonds" because they are rated in the lower categories by nationally recognized rating agencies (consisting of fixed-income securities rated BB to as low as C by S&P or Ba to as low as C by Moody's). ZIF may invest up to 35% of its total assets in investment grade fixed-income securities under normal market conditions and in excess of that amount during temporary defensive periods. ZIF may also invest up to 20% of its total assets in non-rated securities that the investment manager believes to be of a quality comparable to rated securities in which the Fund may invest and up to 10% of its total assets in securities traded principally in foreign markets.

Under normal market conditions, HIX invests at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities. HIX's high-yield debt securities consist of securities rated Baa or lower by Moody's or BBB or lower by S&P. In addition, HIX may invest up to 35% of its total assets in debt securities of issuers located in emerging market countries. It may also invest up to 30% of its assets in zero coupon securities, pay-in-kind bonds and deferred payment securities and up to 20% of its assets in equity securities.

The current investment objectives and policies of HIX will continue unchanged if the Merger occurs.

Neither Fund is intended to be a complete investment program, and there is no assurance that either Fund will achieve its objectives.

The preceding summary of the Funds' investment objectives and certain policies should be considered in conjunction with the discussion below under "Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds' Investment Objectives, Principal Investment Strategies, Fundamental Investment Restrictions and Risk Factors."

### **Effect on Expenses**

As a result of the Merger, total expenses (including the cost of preferred dividend payments and interest expense, if any) paid by ZIF Common Stockholders are expected to decline from 5.26% to 3.04% in the combined Fund, a decline of 2.22%.

### **Fee Table and Expense Example**



The tables below (1) compare the estimated fees and expenses of each Fund, as of each Fund's fiscal year end, and (2) show the estimated fees and expenses of the combined Fund, on a pro forma basis, as if the Merger occurred on April 30, 2008. The estimates are based on the contracts and agreements in effect as of each Fund's fiscal year end and reflect the operating expense accrual rates on that date, which are based on each Fund's net assets as of each Fund's fiscal year end. Accordingly, the actual fees and expenses of each Fund and the combined Fund as of the Closing Date of the Merger may differ from those reflected in the tables below due to changes in net assets from those at each Fund's fiscal year end. No amount of any prior fee waiver or expense reimbursement to HIX or ZIF may be recovered by any person.

Changes in net assets may result from market appreciation or depreciation and other factors occurring between that date and the Closing Date of the Merger. As a general matter, changes (positive or negative) in a Fund's expense ratio resulting from fluctuations in the Fund's net assets will be borne by the stockholders of that Fund and the combined Fund. For information concerning the net assets of each Fund as of April 30, 2008, please see Capitalization.

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The estimated expenses of HIX and ZIF as of each Fund's fiscal year end and pro forma expenses following the proposed Merger are set forth below.

**Fee Table**

	Pre-Reorganization		Pro Forma Combined Fund
	ZIF	HIX	
Management Fee (as a % of net assets attributable to common shares)	1.15%	1.08%	1.09%
Interest Payments, Commitment Fees and Dividend Expense on Borrowed Funds (as a % of net assets attributable to common shares)	3.67%	1.77%	1.86%
Other expenses (as a % of net assets attributable to common shares)	0.44%	0.09%	0.09%
Total annual fund operating expenses (as a % of net assets attributable to common shares)	5.26%	2.94%	3.04%

**Example**

The following example helps you compare the costs of investing in the Funds' Common Stock with the costs of investing in other funds. The example assumes that you invest \$1,000 in Common Stock for the periods shown, that your investment has a 5% return each year, that you reinvest all distributions and dividends and that the Funds' operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
HIX	\$ 30	\$ 91	\$ 155	\$ 327
ZIF	\$ 53	\$ 157	\$ 261	\$ 519
Pro Forma Combined Fund	\$ 31	\$ 94	\$ 160	\$ 336

**Interest of the Manager in the Proposed Merger**

As a result of the Merger, the Manager will benefit from an increase in investment management fees paid on an annual basis by HIX because HIX's investment management fee is 0.10% higher than ZIF's investment management fee. However, since HIX is approximately 20 times larger than ZIF on a net assets basis, the Manager expects that the increase in investment management fees received as a result of the Merger will be minimal. Additionally, the Manager is bearing the entire cost of the Merger and estimates that it will take approximately two years to recover those costs, even after taking into account the increase in investment management fees.

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**COMPARISON OF INVESTMENT OBJECTIVES, STRATEGIES AND PRINCIPAL RISKS OF INVESTING IN THE FUNDS**

The following chart lists the investment objectives, principal investment policies and fundamental investment restrictions of ZIF and HIX and describes the principal differences between the Funds' respective policies. The chart provides ZIF stockholders with a means of comparing the investment objectives, policies and strategies of ZIF with those of HIX.

**Investment Objectives**

<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
ZIF's investment objective is to maintain a high level of current income through investment in a diversified portfolio of high-yield, lower rated fixed-income securities.	HIX's primary investment objective is 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, HIX seeks capital appreciation to the extent consistent with its objective of seeking to maximize current income.	The Funds have similar investments objectives, except that HIX has a secondary objective to seek capital appreciation consistent with its objective of seeking to maximize current income. HIX is also required to invest at least 80% of its net assets in high-yield debt securities

**Principal Investment Strategies**

<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
Under normal market conditions, ZIF invests at least 65% of its total assets in high-yield fixed-income securities.	Under normal conditions, HIX will invest at least 80% of its net assets plus any borrowings for investment purposes in high-yield debt securities.	ZIF currently must invest at least 65% of its assets in high-yield debt securities and may invest the other 35% in a broad range of different fixed-income assets. For HIX, the requirement is 80% of its assets in high-yield debt securities and it may invest the other 20% in a broad range of different fixed-income assets.
ZIF may invest up to 10% of the value of its total assets in securities principally traded in foreign markets.	HIX invests up to 35% of its total assets in debt securities of issuers located in emerging market countries.	HIX may invest a larger portion of its assets in issuers located in emerging market countries.

Emerging market country is defined to include any country which is, at the time of investment, represented in the JP Morgan EMBI Global Index or categorized by the International Bank for Reconstruction and Development (the World Bank), in its annual categorization, as middle or low-income.

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ZIF defines high-yield fixed-income securities (commonly known as junk bonds ) to include those that may be rated as low as C by Moody's or D by S&P. Neither Fund has a minimum investment grade (i.e., Baa/BBB or above by at least one nationally recognized statistical rating organization), or, if unrated, of comparable quality as determined by the Fund's subadviser. Certain of the debt securities purchased by HIX may be comparable to securities so rated.

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<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
[No corresponding policy]	HIX is not required to dispose of a debt security if its credit rating or credit quality declines.	Effectively no difference. Neither Fund is required to dispose of a debt security if its credit rating or credit quality declines.
Ordinarily, ZIF emphasizes investments in intermediate- and longer-term instruments, that is, those with remaining maturities in excess of three years, but the weighted average maturity of portfolio holdings may be shortened or lengthened depending primarily upon the subadviser's outlook for interest rates.	HIX's manager is free to invest in debt securities of any maturity. Under market conditions prevailing at the time of HIX's prospectus in 2000, the Fund's high-yield debt securities were projected to have an average maturity of 8 to 15 years.	These policies are effectively identical. Neither Fund has explicit guidelines on the maturity of the securities in which it may invest.
ZIF may acquire fixed-income securities consisting of preferred stocks (limited to 20% of the Fund's total assets) and all types of debt obligations having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity. These obligations consist of bonds, debentures, notes, mortgage or other asset-backed instruments (that is, instruments secured by receivables and other forms of collateral), equipment lease certificates, equipment trust certificates, conditional sales contracts, commercial paper and obligations issued or guaranteed by the U.S. government or any of its political subdivisions, agencies or instrumentalities (including obligations, such as repurchase agreements, secured by such instruments).	HIX may invest in high-yield foreign and U.S. corporate securities including bonds, debentures, notes, commercial paper and preferred stock and will generally be unsecured. Under market conditions prevailing at the time of HIX's prospectus in 2000, HIX anticipated that such securities would generally be unsecured and that most of the corporate debt securities would bear interest at fixed rates.	These policies are effectively identical; however ZIF's investments in preferred stock are limited to 20% or less of its total assets.
ZIF reserves the right to invest without limitation in fixed-income securities that have variable rates of interest or involve equity features, such as contingent interests or participations based on revenues, sales or profits (that is, interest or other payments, often in addition to a fixed rate of return, that are based on the borrower's attainment of specified levels of revenues, sales or profits and thus enable the holder of the security to share in the potential success of the venture). ZIF also has the right to acquire common stock as part of a unit in connection with the purchase of debt securities consistent with the Fund's investment policies.	HIX may invest in corporate debt securities with variable rates of interest or which involve equity features, such as contingent interest or participations based on revenues, sales or profits (i.e., interest or other payments, often in addition to a fixed rate of return, that are based on the borrower's attainment of specified levels of revenues, sales or profits and thus enable the holder of the security to share in the potential success of the venture).	ZIF may invest in any type of fixed-income securities with variable rates of interest or involve equity features. HIX's investments are limited to corporate debt securities. ZIF may also invest a portion of its assets in equity securities as part of a unit in connection with the purchase of debt securities.
[No corresponding policy]	HIX may invest in high-yield debt securities with floating interest rates.	ZIF has no explicit policy with respect to high-yield debt securities with floating interest rates.

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<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
Subject to ZIF's basic investment strategy, ZIF may also purchase Eurodollar certificates of deposit issued by branches of U.S. and foreign banks.	[No corresponding policy]	HIX has no explicit policy with respect to Eurodollar certificates.
ZIF may buy or sell foreign currencies or deal in forward foreign currency contracts in connection with the purchase and sale of foreign investments.	HIX may also invest in securities denominated in currencies of emerging market countries. There is no minimum rating criteria for HIX's investments in such securities.	These policies are effectively identical.
[No corresponding policy]	HIX's investments in debt securities of emerging market issuers may include dollar and non-dollar-denominated (a) debt obligations issued or guaranteed by foreign national, provincial, state, municipal or other governments with taxing authority or by their agencies or instrumentalities, including Brady bonds; (b) debt obligations of supranational entities; (c) debt obligations and other fixed-income securities of foreign corporate issuers; (d) debt obligations of U.S. corporate issuers; and (e) debt securities issued by corporations that generate significant profits from emerging market countries.	ZIF has no explicit policy with respect to these debt securities.
[No corresponding policy]	Under market conditions prevailing at the time of HIX's prospectus in 2000, the Fund expected that a substantial portion of its sovereign debt securities would consist of Brady bonds, which are debt securities issued under the framework of the Brady Plan as a means for debtor nations to restructure their outstanding external indebtedness; participations in loans between emerging market governments and financial institutions; or fixed-income securities issued by supranational entities such as the World Bank or the European Economic Community.	ZIF has no stated intentions.
ZIF is permitted to invest up to 20% of its total assets in zero coupon securities.	HIX may invest up to 30% of its total assets in zero coupon securities and pay-in-kind bonds. In addition, a substantial portion of the Fund's sovereign debt securities may be acquired at a discount, and such purchases are not included in the 30% limit referred to in the previous sentence.	HIX may invest a greater percentage of its assets in zero coupon securities and pay-in-kind bonds than ZIF. In addition, HIX may invest sovereign debt securities at a discount, without counting them against the 30% limitation.

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<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
Pursuant to approval by the Fund's Board of Directors, ZIF may invest up to 15% of its total assets in corporate loans. Corporate loans are negotiated and underwritten by a bank or syndicate of banks and other institutional investors. The Fund may acquire an interest in corporate loans through the primary market by acting as one of a group of lenders in a corporate loan. The Fund may also acquire an interest in corporate loans by purchasing both participations in and assignments of portions of corporate loans from third parties.	HIX may invest in fixed and floating rate loans arranged through private negotiations between a corporate borrower or a foreign sovereign entity and one or more financial institutions in the form of participations in loans and assignments of all or a portion of loans from third parties.	Both Funds may invest in loans, but HIX contemplates investing in loans involving foreign sovereigns. In addition, unlike ZIF, HIX's investment policies have no limitation on the amount that may be invested in corporate loans, participations and assignments.
ZIF may invest up to 20% of its total assets in preferred stock.	HIX may invest up to 20% of its total assets in common stock, convertible securities, warrants, preferred stock or other equity securities of U.S. and foreign issuers when consistent with its objectives.	While ZIF's ability to invest in equity is limited to 20% of preferred stock, HIX maintains a 20% limitation on investment in all types of domestic and foreign equity securities.
ZIF's policies provide that when, in the determination of management, conditions in the securities markets would make pursuing the Fund's basic investment strategy inconsistent with the best interest of the Fund's stockholders, as a temporary defensive strategy, ZIF may employ alternative strategies, including investing all of its assets in securities rated investment grade by any nationally recognized statistical rating organization, or in unrated securities of comparable quality.	In times of adverse market conditions, HIX may employ alternative strategies, including investment of a substantial portion of the Fund's assets in securities rated higher than Baa by Moody's or by S&P, or in unrated securities of comparable quality. In addition, in order to maintain liquidity, the Fund may invest up to 35% of its total assets in high-quality short-term money market instruments. Such instruments may include obligations of the U.S. Government or its agencies or instrumentalities; commercial paper of issuers rated, at the time of purchase, A-2 or better by S&P or P-2 or better by Moody's or which, in the opinion of management, are of comparable creditworthiness; certificates of deposit, banker's acceptances or time deposits of United States banks with total assets of at least \$1 billion (including obligations of foreign branches of such banks) and of the 75 largest foreign commercial banks in terms of total assets (including domestic branches of such banks); and repurchase agreements with respect to the foregoing obligations.	Effectively no difference. Both Funds may employ temporary defensive strategies. While ZIF <del>BBB</del> invest all of the Fund's assets in securities rated investment grade or in unrated securities if comparable quality, HIX may invest a substantial portion in similar instruments. HIX also has explicit policies as to its defensive strategy whereas ZIF does not.
	In times of adverse market conditions, HIX may invest its assets without limit in high-quality short-term money market instruments.	
	HIX may, in addition to engaging in the transactions described above, borrow money for temporary or emergency purposes (including, for example, clearance of transactions, share repurchases or payments of dividends to stockholders) in an amount not exceeding 5% of the value of the fund's total assets (including the amount borrowed).	





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<b>ZIF (Acquired Fund)</b>	<b>HIX (Acquiring Fund)</b>	<b>Differences Between Funds</b>
<p>Not 50% of the Fund's capital structure may consist of borrowings represented by indebtedness of a senior class of stock, such as the preferred shares.</p>	<p>HIX may leverage in an amount up to 33 1/3% of its total assets including the amount obtained from leverage.</p>	<p>These restrictions basically recite the 1940 Act requirement, which is applicable to both Funds.</p>
<p>[No corresponding policy]</p>	<p>Under market conditions prevailing at the time of HIX's prospectus in 2000, the Fund expected that the aggregate face amount of its investments in such floating rate securities will be approximately equal to the aggregate face amount of its borrowings or other proceeds of leverage.</p>	<p>ZIF has no stated intentions.</p>
<p>To the extent permitted by S&amp;P and Moody's, ZIF may enter into repurchase agreements on up to 25% of the value of its total assets.</p>	<p>HIX may enter into repurchase agreements for cash management purposes.</p>	<p>ZIF can only enter into reverse repurchase agreements of up to 25% of its total assets and only if permitted by S&amp;P and Moody's policies. HIX can enter into reverse repurchase agreements for cash management purposes.</p>
<p>ZIF may purchase and sell futures contracts, purchase and sell (or write) exchange-listed and over-the-counter (OTC) put and call options on securities, financial indices and futures contracts, enter into interest rate and currency transactions and enter into other similar transactions which may be developed in the future to the extent management determines that they are consistent with the Fund's investment objectives and policies and applicable regulatory requirements. ZIF may use any or all of these techniques at any time, and the use of any particular derivative transaction will depend on market conditions.</p>	<p>HIX may use various investment strategies described below to hedge market risks (such as broad or specific market movements, interest rates and currency exchange rates), to manage the effective maturity or duration of debt instruments held by HIX, or to seek to increase the fund's income or gain. HIX may enter into credit default swap contracts for hedging purposes or to add leverage to the portfolio.</p>	<p>There are effectively no significant differences between these policies; both Funds may invest in a broad range of derivative instruments for hedging as well as in pursuit of their investment objectives.</p>
	<p>HIX may engage in currency transactions with counterparties to hedge the value of portfolio securities denominated in particular currencies against fluctuations in relative value or to generate income or gain. Currency transactions include currency forward contracts, exchange-listed currency futures contracts and options thereon, exchange-listed and OTC options on currencies and currency swaps.</p>	
	<p>HIX may use a variety of derivative instruments as part of its investment strategies or for hedging or risk management purposes. Examples of derivative instruments that the fund may use include options contracts, futures contracts, options on futures contracts, credit default swaps and swap agreements.</p>	
	<p>HIX may purchase and sell futures contracts, purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial</p>	



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**ZIF (Acquired Fund)**