

LMP CAPITAL & INCOME FUND INC.
Form N-CSRS
July 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-21467

LMP Capital and Income Fund Inc.
(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: May 31, 2014

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

May 31, 2014

LMP

CAPITAL AND INCOME FUND INC. (SCD)

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

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Fund objective	

The Fund's investment objective is total return with an emphasis on income.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of LMP Capital and Income Fund Inc. for the six-month reporting period ended May 31, 2014. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

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June 27, 2014

II LMP Capital and Income Fund Inc.

Investment commentary

Economic review

After generally expanding at a moderate pace since the end of the Great Recession, the U.S. economy experienced a setback toward the end of the six months ended May 31, 2014 (the reporting period). Looking back, U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 4.1% during the third quarter of 2013, its best reading since the fourth quarter of 2011. The economy then moderated during the fourth quarter of 2013, as GDP growth was 2.6%. Slower growth was due to several factors, including a deceleration in private inventory investment, declining federal government spending and less residential fixed investments. The Commerce Department's final reading for first quarter 2014 GDP growth, released after the reporting period ended, was -2.9%. This represented the first negative reading for GDP growth since the first quarter of 2011. The contraction was partially attributed to severe winter weather in the U.S., as well as slower growth overseas. In particular, the Commerce Department reported that moderating growth primarily reflected negative contributions from private inventory investment, exports, state and local government spending, nonresidential fixed investment, and residential fixed investment that were partly offset by a positive contribution from personal consumption expenditures.

The U.S. job market improved during the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 7.5%. Unemployment was as low as 6.6% in January 2014, before ticking up to 6.7% in February and holding steady in March 2014. Unemployment then fell to 6.3% in April and

was unchanged in May, the lowest level since September 2008. However, falling unemployment during the period was partially due to a decline in the workforce participation rate, which was 62.8% in both April and May 2014, matching the lowest level since 1978. The number of longer-term unemployed remained elevated, as roughly 34.6% of the 9.8 million Americans looking for work in May 2014 had been out of work for more than six months.

Sales of existing-homes fluctuated during the reporting period given changing mortgage rates and weather-related factors. According to the National Association of Realtors (NAR), after three consecutive monthly declines, existing-home sales rose 1.3% on a seasonally adjusted basis in April 2014 versus the previous month's sales. Sales then rose 4.9% in May versus the previous month. The NAR reported that the median existing-home price for all housing types was \$213,400 in May 2014, up 5.1% from May 2013. The inventory of homes available for sale in May 2014 was 2.2% higher than the previous month at a 5.6 month supply at the current sales pace and 6.0% higher than in May 2013.

The manufacturing sector continued to expand during the reporting period. Based on revised figures for the Institute for Supply Management's Purchasing Managers Index (PMI), manufacturing expanded during all six months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 56.5 in December 2013, the PMI fell to 51.3 in January 2014, its weakest reading since May 2013. However, the PMI moved up the next four months and was 55.4 in May 2014. During May, seventeen of the eighteen industries within the PMI expanded.

Investment commentary (cont d)

Market review

Q. How did the Federal Reserve Board (Fedⁱⁱ) respond to the economic environment?

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate^{iv} at a historically low range between zero and 0.25%. At its meeting in December 2012, prior to the beginning of the reporting period, the Fed announced that it would continue purchasing \$40 billion per month of agency mortgage-backed securities (MBS), as well as initially purchasing \$45 billion per month of longer-term Treasuries. At a press conference following its meeting that ended on June 19, 2013, then Fed Chairman Ben Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year. In a surprise to many investors, at its meeting that ended on September 18, 2013, the Fed did not taper its asset purchase program. Then, at its meeting that concluded on December 18, 2013, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency MBS at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per

month.

At each of the Fed s next three meetings (January, March and May 2014), it announced further \$10 billion tapering of its asset purchases. Finally, at its meeting that ended on June 18, 2014, after the reporting period ended, the Fed again cut its monthly

asset purchases. Beginning in July, it will buy a total of \$35 billion per month (\$15 billion per month of agency MBS and \$20 billion per month of longer-term Treasuries).

Q. What factors impacted the U.S. stock market during the reporting period?

A. While there were periods of volatility and several flights to quality, the U.S. stock market generated strong results during the reporting period. Despite a number of macro issues, including some mixed economic data and geopolitical concerns, the market posted positive results during the first month of the period. The market then weakened in January 2014, due to concerns related to China s economy and the potential for moderating global growth. However, the setback was only temporary, as stocks rallied sharply in February given generally solid corporate profits and robust investor demand. Despite weakening economic data and increased geopolitical issues, the market was highly resilient and posted positive returns from March through May 2014. All told, for the six months ended May 31, 2014, the S&P 500 Index^v gained 7.62%.

Looking at the U.S. stock market more closely, mid-cap stocks generated the best returns during the six months ended May 31, 2014, with the Russell Midcap Index^{vi} returning 8.35%. In contrast, large-cap stocks, as measured by the Russell 1000 Index^{vii}, returned 7.71% and small-cap stocks, as measured by the Russell 2000 Index^{viii}, declined 0.10%. From an investment style perspective, growth and value stocks, as measured by the Russell 3000 Growth^{ix} and Russell 3000 Value^x Indices, returned 6.52% and 7.67%, respectively.

Looking at the energy master limited partnership (MLP) market, over the six-months ended May 31, 2014, the Alerian MLP Index returned 11.62%. After lagging the broader market in the second half of 2013 as investors focused on short-term interest rate noise, the Alerian MLP Index posted a total return of 9.8% year-to-date through May 31, 2014, outpacing the major U.S. equity indices by a healthy margin. We believe the fundamentals for MLPs on the whole remain intact, as evidenced by strong distribution growth announcements in the industry. Additionally, natural gas prices have surged since October 2013 as demand due to colder-than-expected temperatures led to a drawdown of storage levels. Higher demand and higher prices support the need for infrastructure spending, which in turn supports growth for MLPs. We continue to believe that the U.S. renaissance in energy production represents a secular growth opportunity. The energy infrastructure build-out has continued unabated and is resulting in rising cash flow streams to many energy MLPs.

Q. Did Treasury yields trend higher or lower during the six months ended May 31, 2014?

A. Short-term Treasury yields moved higher, whereas long-term Treasury yields declined during the reporting period. When the reporting period began, the yield on the two-year Treasury was 0.28%, equaling its low for the period. It was as high as 0.47% in March and April 2014, before ending the period at 0.37%. The yield on the ten-year Treasury began the period at 2.75% and it fell as low as 2.44% on May 28, 2014. Ten-year Treasuries peaked at 3.04% on December 31, 2013, and ended the period at 2.48%.

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

A. While the market was volatile at times, the spread sectors generated positive results during the reporting period. After generally weakening in December 2013, the spread sectors largely rallied in January and February 2014, as investor demand was solid overall. The majority of spread sectors then modestly declined in March 2014 as interest rates moved higher. However, the reporting period ended on a positive note as the spread sectors generated positive results in April and May. The overall bond market, as measured by the Barclays U.S. Aggregate Index^{xii}, gained 3.28% during the six months ended May 31, 2014.

Q. How did the high-yield market perform over the six months ended May 31, 2014?

A. The U.S. high-yield bond market was among the best performing spread sectors during the reporting period. The asset class, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index^{xiii}, posted positive returns during all six months covered by the reporting period. Supporting the high yield market was generally solid investor demand and low defaults. All told, the high-yield bond market gained 5.14% for the six months ended May 31, 2014.

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

A. The asset class was volatile but generated solid results overall during the six months ended May 31, 2014. After a brief rally in December 2013, the asset class weakened in January 2014, given renewed concerns about China's economy and

Investment commentary (cont d)

depreciating emerging market currencies. However, the asset class rallied sharply from February through May 2014 as investor demand resumed. Overall, the JPMorgan Emerging Markets Bond Index Global (EMBI Global^{iv}) gained 9.08% during the six months ended May 31, 2014.

Performance review

For the six months ended May 31, 2014, LMP Capital and Income Fund Inc. returned 12.18% based on its net asset value (NAV^v) and 10.51% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Aggregate Index and the S&P 500 Index, returned 3.28% and 7.62%, respectively. The Lipper Income and Preferred Stock Closed-End Funds Category Average^{vi} returned 11.05% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.56 per share. As of May 31, 2014, the Fund estimates that 88.54% of the distributions were sourced from net investment income and 11.46% constitutes a return of capital.* The performance table shows the Fund's six-month total return based on its NAV and market price as of May 31, 2014. **Past performance is no guarantee of future results.**

Performance Snapshot as of May 31, 2014 (unaudited)

	6-month total return**
Price per share	
\$19.05 (NAV)	12.18%
\$16.98 (Market Price)	10.51%

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

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

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

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

Looking for additional information?

The Fund is traded under the symbol SCD and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XSCDX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press

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

release that can be found on most major financial websites as well as www.lmcef.com.

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

Thank you for your investment in LMP Capital and Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

June 27, 2014

***RISKS:** Stock and bond prices are subject to fluctuation. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. The repositioning of the Fund's portfolio may increase a shareholder's risk of loss associated with an investment in the Fund's shares. The Fund's investments in energy-related MLPs subjects it to the risks of investing in MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Leverage may magnify gains and increase losses in the Fund's portfolio.*

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

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

Investment commentary (cont d)

- ⁱ Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ⁱⁱ The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- ⁱⁱⁱ The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- ^{iv} The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- ^v The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- ^{vi} The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.
- ^{vii} The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.
- ^{viii} The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.
- ^{xi} The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- ^x The Russell 3000 Value Index measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.
- ^{xii} The Alerian MLP Index is a composite of the fifty most prominent energy master limited partnerships (MLPs) and is calculated using a float-adjusted, capitalization-weighted methodology.

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The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

^{xiii} The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

^{xiv} The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.

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

^{xvi} Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended May 31, 2014, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 26 funds in the Fund's Lipper category.

VIII LMP Capital and Income Fund Inc.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of May 31, 2014 and November 30, 2013. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.
Represents less than 0.1%

Schedule of investments (unaudited)

May 31, 2014

LMP Capital and Income Fund Inc.

	Shares	Value
Security		
Common Stocks 67.4%		
Consumer Discretionary 1.3%		
<i>Media 1.3%</i>		
Regal Entertainment Group, Class A Shares	239,000	\$ 4,662,890 ^(a)
Consumer Staples 1.7%		
<i>Household Products 1.7%</i>		
Kimberly-Clark Corp.	53,000	5,954,550 ^(a)
Energy 4.1%		
<i>Energy Equipment & Services 4.1%</i>		
Seadrill Ltd.	371,000	14,098,000
Financials 21.9%		
<i>Capital Markets 7.6%</i>		
Ares Capital Corp.	682,000	11,757,680 ^(a)
FS Investment Corp.	211,310	2,214,529
Golub Capital BDC Inc.	219,000	3,727,380 ^(a)
Medley Capital Corp.	248,000	3,072,720 ^(a)
TCP Capital Corp.	81,000	1,389,960
TriplePoint Venture Growth BDC Corp.	240,000	3,748,800 ^(a)
<i>Total Capital Markets</i>		25,911,069
<i>Real Estate Investment Trusts (REITs) 14.3%</i>		
American Capital Agency Corp.	102,000	2,420,460 ^(a)
Annaly Capital Management Inc.	400,000	4,716,000 ^(a)
DCT Industrial Trust Inc.	150,000	1,188,000
EPR Properties	41,000	2,210,720 ^(a)
Equity Residential	19,300	1,192,740
Excel Trust Inc.	170,000	2,244,000 ^(a)
HCP Inc.	41,000	1,711,750 ^(a)
Health Care REIT Inc.	27,000	1,707,210 ^(a)
Highwoods Properties Inc.	26,000	1,055,080 ^(a)
Hospitality Properties Trust	119,000	3,452,190 ^(a)
Inland Real Estate Corp.	185,000	1,964,700 ^(a)
Kilroy Realty Corp.	24,000	1,453,920 ^(a)
Liberty Property Trust	49,000	1,896,790 ^(a)
Ramco-Gershenson Properties Trust	132,000	2,191,200 ^(a)
Regency Centers Corp.	22,000	1,174,800 ^(a)
Retail Properties of America Inc., Class A Shares	155,000	2,331,200