

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Form N-CSRS

July 24, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-06506**

**Western Asset Intermediate Muni Fund Inc.**

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

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

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

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place,**

**Stamford, CT 06902**

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

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

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

**Date of reporting period: May 31, 2015**

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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Semi-Annual Report

May 31, 2015

WESTERN ASSET  
INTERMEDIATE MUNI  
FUND INC. (SBI)

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

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<b>Fund objective</b>	

The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes\* consistent with prudent investing.

Under normal market conditions, the Fund will invest at least 80% of its total assets in municipal obligations that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization or, if unrated, of equivalent quality as determined by the investment manager. The Fund also maintains a dollar-weighted average effective maturity of between three and ten years.

\* Certain investors may be subject to the federal alternative minimum tax ( AMT ), and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

## Letter from the chairman

**Dear Shareholder,**

We are pleased to provide the semi-annual report of Western Asset Intermediate Muni Fund Inc. for the six-month reporting period ended May 31, 2015. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.  
We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

June 26, 2015

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## Investment commentary

### Economic review

The U.S. economy expanded moderately during the six months ended May 31, 2015 (the reporting period). While the U.S. Department of Commerce reported that third quarter 2014 U.S. gross domestic product (GDP) growth was a strong 5.0%, fourth quarter 2014 GDP growth slowed to a more modest 2.2%. The deceleration in growth primarily reflected an upturn in imports, a downturn in federal government spending and moderating nonresidential fixed investment. In addition, the U.S. Department of Commerce reported that first quarter 2015 GDP growth was -0.2%. This downturn was attributed to a number of factors, including a deceleration in personal consumption expenditures, along with negative contributions from exports, nonresidential fixed investment, and state and local government spending.

Activity in the U.S. manufacturing sector also moderated during the reporting period. Based on the Institute for Supply Management's Purchasing Managers Index (PMI), U.S. 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 55.1 in December 2014, the PMI generally decelerated over much of the reporting period and the PMI was 52.8 in May 2015.

The labor market was a moderate tailwind for the economy during the reporting period. When the period began, unemployment was 5.6%, as reported by the U.S. Department of Labor. By May 2015, unemployment was 5.5%, close to its lowest level since May 2008.

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## Investment commentary (cont d)

### Market review

#### Q. How did the Federal Reserve Board ( Fed<sup>ii</sup> ) 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 it has since December 2008, the Fed maintained the federal funds rate<sup>iv</sup> at a historically low range between zero and 0.25%. The Fed ended its asset purchase program that was announced in December 2012. In December 2014, the Fed said that it can be patient in beginning to normalize the stance of monetary policy. At its meeting that ended on April 29, 2015, the Fed said, economic growth slowed during the winter months, in part reflecting transitory factors. Finally, at its meeting that concluded on June 17, 2015, after the reporting period ended, the Fed said, The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

#### Q. Did Treasury yields trend higher or lower during the six months ended May 31, 2015?

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 note was 0.47%. It peaked at 0.73% towards the end of December 2014 and again on March 6, 2015, and fell as low as 0.44% on January 15, 2015, before ending the period at 0.61%. The yield on the ten-year Treasury note began the period at 2.18% and its peak of 2.31% occurred on December 5, 2014. The yield on the ten-year Treasury was as low as 1.68% in late January/early February 2015 and concluded the period at 2.12%.

#### Q. How did the municipal bond market perform versus the taxable bond market over the reporting period?

A. The municipal bond market modestly lagged its taxable bond counterpart during the six months ended May 31, 2015, as the Barclays Municipal Bond Index<sup>v</sup> and the Barclays U.S. Aggregate Index<sup>vi</sup> gained 0.71% and 1.09%, respectively. The overall municipal bond market was supported by overall positive investor demand, largely improving fundamentals and declining longer-term rates. Its underperformance versus the taxable bond market was partially due to an increase in new issuances thus far in 2015.

### Performance review

For the six months ended May 31, 2015, Western Asset Intermediate Muni Fund Inc. returned 4.20% based on its net asset value ( NAV<sup>ii</sup> ) and 3.48% based on its New York Stock Exchange Amex ( NYSE Amex ) market price per share. The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Cumulative Preferred Shares at 90% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 0.82%. The Fund's unmanaged benchmark, the Barclays Municipal 1-15 Year Bond Index<sup>viii</sup>, returned 0.45% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average<sup>ix</sup> returned 1.09% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During this six-month period, the Fund made distributions to shareholders totaling \$0.24 per share. As of May 31, 2015, the Fund estimates that all of the distributions were sourced from net investment income.\* The performance table shows the Fund's six-month total return based on its NAV and market price as of May 31, 2015. **Past performance is no guarantee of future results.**

**Performance Snapshot** as of May 31, 2015  
(unaudited)

Price Per Share	6-Month Total Return
\$10.48 (NAV)	4.20% **
\$9.90 (Market Price)	3.48%

**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 **SBI** and its closing market price is available in most newspapers under the NYSE Amex listings. The daily NAV is available on-line under the symbol **XSBIX** on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com).

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

Thank you for your investment in Western Asset Intermediate Muni 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.

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

\*\* The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Cumulative Preferred Shares at 90% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 0.82%.

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Investment commentary (cont d)

Sincerely,

Kenneth D. Fuller

Chairman, President and

Chief Executive Officer

June 26, 2015

***RISKS:** The Fund's investments are subject to interest rate and credit risks. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Lower-rated, higher-yielding bonds, known as junk bonds, are subject to greater credit risk, including the risk of default, than higher-rated obligations. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. 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.*

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.

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

<sup>ii</sup> The 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 U.S. manufacturing sector.

<sup>iii</sup> 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.

<sup>iv</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

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<sup>v</sup> The Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

<sup>vi</sup> 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.

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

<sup>viii</sup> The Barclays Municipal 1-15 Year Bond Index is a market value weighted index of investment grade (Baa3/BBB- or higher) fixed-rate municipal bonds with maturities of one to fifteen years.

<sup>ix</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended May 31, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 10 funds in the Fund's Lipper category.

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**Fund at a glance** (unaudited)

**Investment breakdown** (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of May 31, 2015 and November 30, 2014 and does not include derivatives, such as futures contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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## Spread duration (unaudited)

**Economic exposure** May 31, 2015

**Total Spread Duration**

SBI 5.35 years

Benchmark 4.69 years

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

Benchmark Barclays Municipal 1-15 Year Bond Index  
SBI Western Asset Intermediate Muni Fund Inc.

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## Effective duration (unaudited)

Interest rate exposure May 31, 2015

**Total Effective Duration**

SBI 5.20 years

Benchmark 4.75 years

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

Benchmark Barclays Municipal 1-15 Year Bond Index  
SBI Western Asset Intermediate Muni Fund Inc.

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May 31, 2015

**Western Asset Intermediate Muni Fund Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<b>Municipal Bonds 132.0%</b>				
<i>Alabama 1.1%</i>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants	5.000%	10/1/21	\$ 1,500,000	\$ 1,667,100
<i>Arizona 3.9%</i>				
Phoenix, AZ, Civic Improvement Corp., Wastewater System Revenue, Junior Lien	5.000%	7/1/27	1,000,000	1,190,260
Pinal County, AZ, Electric District No. 3	4.000%	7/1/23	1,000,000	1,092,340
Pinal County, AZ, Electric District No. 3	5.000%	7/1/24	1,760,000	2,022,680
Pinal County, AZ, Electric District No. 3	5.000%	7/1/25	1,280,000	1,469,478
<i>Total Arizona</i>				<i>5,774,758</i>
<i>California 18.2%</i>				
Anaheim, CA, Public Financing Authority Lease Revenue	5.000%	5/1/26	2,000,000	2,358,640
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	1.200%	4/1/24	2,000,000	2,000,520 (a)(b)
California State PCFA, Water Furnishing Revenue	5.000%	7/1/27	2,000,000	2,214,320 (c)(d)
California State, GO	0.827%	12/1/17	1,500,000	1,512,840 (a)(b)
California Statewide CDA Revenue, Lodi Memorial Hospital, CMI	5.000%	12/1/22	2,000,000	2,196,080
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	565,000	568,091
Long Beach, CA, Bond Finance Authority Lease Revenue	5.000%	8/1/31	1,855,000	2,043,394
Los Angeles County, CA, Public Works Financing Authority, Lease Revenue:				
Multiple Capital Project II	5.000%	8/1/21	1,000,000	1,176,870
Multiple Capital Project II	5.000%	8/1/22	1,000,000	1,192,580
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,696,720
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/24	4,130,000	4,759,040
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/25	2,000,000	2,303,400
River Islands, CA, Public Financing Authority Special Tax, Community Facilities District No. 2003-1	5.250%	9/1/34	430,000	433,410
Riverside County, CA, Transportation Commission Sales Tax Revenue, Limited Tax	5.250%	6/1/26	300,000	364,536
<i>Total California</i>				<i>26,820,441</i>
<i>Colorado 6.1%</i>				
Colorado Educational & Cultural Facilities Authority Revenue Charter School, Bromley School Project, SCA	5.125%	9/15/20	1,155,000	1,164,298
E-470 Public Highway Authority Revenue, CO	5.250%	9/1/25	2,000,000	2,281,360
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	3,940,000	4,806,879
SBC Metropolitan District, CO, GO, ACA	5.000%	12/1/25	750,000	