

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Form N-Q

October 23, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANY**

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: 1-888-777-0102

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

Date of reporting period: **August 31, 2014**

**ITEM 1. SCHEDULE OF INVESTMENTS.**

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.**

FORM N-Q

AUGUST 31, 2014

## WESTERN ASSET INTERMEDIATE MUNI FUND INC.

## Schedule of investments (unaudited)

August 31, 2014

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>MUNICIPAL BONDS - 131.2%</b>				
<b>Alabama - 1.2%</b>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants	5.000%	10/1/21	\$ 1,500,000	\$ 1,705,290
<b>Alaska - 0.4%</b>				
Anchorage, AK, GO, Refunding, FGIC	6.000%	10/1/14	500,000	502,370
<b>Arizona - 4.0%</b>				
Phoenix, AZ, Civic Improvement Corp., Wastewater System Revenue, Junior Lien	5.000%	7/1/27	1,000,000	1,207,840
Pinal County, AZ, Electric District No. 3	4.000%	7/1/23	1,000,000	1,083,750
Pinal County, AZ, Electric District No. 3	5.000%	7/1/24	1,760,000	2,028,488
Pinal County, AZ, Electric District No. 3	5.000%	7/1/25	1,280,000	1,466,624
<i>Total Arizona</i>				5,786,702
<b>California - 16.7%</b>				
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	1.150%	4/1/24	2,000,000	2,017,200 <sup>(a)(b)</sup>
California State PCFA, Water Furnishing Revenue	5.000%	7/1/27	2,000,000	2,165,260 <sup>(c)(d)</sup>
California State, GO	0.809%	12/1/17	1,500,000	1,518,630 <sup>(a)(b)</sup>
California Statewide CDA Revenue, Lodi Memorial Hospital, CMI	5.000%	12/1/22	2,000,000	2,240,220
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	565,000	567,204
Long Beach, CA, Bond Finance Authority Lease Revenue	5.000%	8/1/31	1,855,000	2,038,997
Los Angeles County, CA, Public Works Financing Authority, Lease Revenue:				
Multiple Capital Project II	5.000%	8/1/21	1,000,000	1,194,790
Multiple Capital Project II	5.000%	8/1/22	1,000,000	1,203,010
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,825,990
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/24	4,130,000	4,816,282
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/25	2,000,000	2,313,220
Riverside County, CA, Transportation Commission Sales Tax Revenue, Limited Tax	5.250%	6/1/26	300,000	369,978
<i>Total California</i>				24,270,781
<b>Colorado - 7.2%</b>				
Colorado Educational & Cultural Facilities Authority Revenue Charter School:				
Bromley School Project, SCA	5.125%	9/15/20	1,155,000	1,185,885
Refunding & Improvement, University Lab School, SCA	5.250%	6/1/24	1,350,000	1,352,565
E-470 Public Highway Authority Revenue, CO	5.250%	9/1/25	2,000,000	2,205,880
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	3,940,000	4,933,826
SBC Metropolitan District, CO, GO, ACA	5.000%	12/1/25	750,000	760,042
<i>Total Colorado</i>				10,438,198

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**Connecticut - 1.0%**

Connecticut State HEFA Revenue, Bristol Hospital	5.500%	7/1/21	1,505,000	1,506,294
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**Florida - 10.2%**

Citizens Property Insurance Corp., FL	5.000%	6/1/16	5,000,000	5,378,750
Jacksonville, FL, Sales Tax Revenue, Better Jacksonville	5.000%	10/1/30	1,500,000	1,712,535
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/31	4,000,000	4,365,840 <sup>(c)</sup>
Miami-Dade County, FL, Aviation Revenue	5.000%	10/1/32	1,000,000	1,085,640 <sup>(c)</sup>

**See Notes to Schedule of Investments.**

## WESTERN ASSET INTERMEDIATE MUNI FUND INC.

## Schedule of investments (unaudited) (cont d)

August 31, 2014

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>Florida - 10.2% (continued)</b>				
Miami-Dade County, FL, School Board, COP	5.000%	2/1/24	\$ 2,000,000	\$ 2,213,600
<i>Total Florida</i>				<i>14,756,365</i>
<b>Georgia - 4.7%</b>				
Atlanta, GA, Water & Wastewater Revenue	6.000%	11/1/23	2,000,000	2,464,100
Burke County, GA, Development Authority Revenue, Oglethorpe Power Corp. Vogtle Project	2.400%	4/1/20	1,000,000	1,013,060 <sup>(a)(b)</sup>
DeKalb Private Hospital Authority Revenue, GA, Anticipation CTFS, Children's Health Care of Atlanta Inc.	5.000%	11/15/29	2,000,000	2,236,000
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.000%	7/1/29	1,000,000	1,163,060
<i>Total Georgia</i>				<i>6,876,220</i>
<b>Illinois - 3.8%</b>				
Glendale Heights, IL, Hospital Revenue, Refunding Glendale Heights Project	7.100%	12/1/15	310,000	316,107 <sup>(e)</sup>
Illinois Finance Authority Revenue, Memorial Health System	5.250%	4/1/29	1,670,000	1,798,373
Illinois State Sports Facilities Authority Revenue, State Tax Supported	5.250%	6/15/30	3,000,000	3,352,410
<i>Total Illinois</i>				<i>5,466,890</i>
<b>Indiana - 7.5%</b>				
Indiana State Finance Authority, Environmental Revenue, U.S. Steel Corp.	6.000%	12/1/19	1,000,000	1,100,610
Indianapolis, IN, Gas Utility Revenue, Second Lien	5.250%	8/15/29	4,000,000	4,643,680
Indianapolis, IN, Thermal Energy System, Multi-Mode	5.000%	10/1/23	4,000,000	4,542,880
Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project	5.875%	1/1/24	500,000	560,345 <sup>(c)</sup>
<i>Total Indiana</i>				<i>10,847,515</i>
<b>Iowa - 1.5%</b>				
Iowa State Finance Authority Midwestern Disaster Area Revenue:				
Iowa Fertilizer Co. Project	5.000%	12/1/19	1,020,000	1,081,098
Iowa Fertilizer Co. Project	5.250%	12/1/25	1,010,000	1,080,084
<i>Total Iowa</i>				<i>2,161,182</i>
<b>Michigan - 11.7%</b>				
Detroit, MI, Water Supply System Revenue, Senior Lien	5.250%	7/1/26	5,000,000	5,391,450
Michigan State Finance Authority Revenue, Local Government Loan Program, Detroit Water & Sewer	5.000%	7/1/24	1,000,000	1,156,160 <sup>(f)</sup>
Michigan State Housing Development Authority Rental Housing Revenue	5.250%	10/1/24	2,640,000	2,757,111
Michigan State, Hospital Finance Authority Revenue, Refunding, Hospital Sparrow Obligated	5.000%	11/15/14	1,190,000	1,201,388
Walled Lake, MI, Consolidated School District, NATL	5.000%	5/1/22	1,000,000	1,028,390
	5.000%	12/1/16	5,000,000	5,442,200 <sup>(c)</sup>

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Wayne County, MI, Airport Authority Revenue, Detroit Metropolitan  
Airport

*Total Michigan*

*16,976,699*

**Nevada - 3.1%**

Humboldt County, NV, PCR, Idaho Power Co. Project

5.150%

12/1/24

4,000,000

4,483,720

**See Notes to Schedule of Investments.**

## WESTERN ASSET INTERMEDIATE MUNI FUND INC.

## Schedule of investments (unaudited) (cont d)

August 31, 2014

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>New Hampshire - 4.6%</b>				
New Hampshire HEFA Revenue, Healthcare Systems Covenant Health	5.000%	7/1/28	\$ 6,400,000	\$ 6,717,184
<b>New Jersey - 14.3%</b>				
New Jersey State EDA Revenue:				
Continental Airlines Inc. Project	4.875%	9/15/19	1,515,000	1,555,390 <sup>(c)</sup>
School Facilities Construction	5.000%	3/1/29	5,000,000	5,539,100
New Jersey State EFA Revenue, University of Medicine & Dentistry	7.125%	12/1/23	2,000,000	2,557,320 <sup>(g)</sup>
New Jersey State Higher Education Assistance Authority, Student Loan Revenue	5.375%	6/1/24	4,000,000	4,469,280
New Jersey State Transportation Trust Fund Authority Revenue	5.250%	6/15/23	4,000,000	4,684,720
New Jersey State Turnpike Authority Revenue	0.580%	1/1/16	2,000,000	2,000,660 <sup>(a)(b)</sup>
<i>Total New Jersey</i>				<i>20,806,470</i>
<b>New Mexico - 1.9%</b>				
Bernalillo County, NM, Gross Receipts Tax Revenue, AMBAC	5.250%	10/1/18	1,100,000	1,279,509
New Mexico Finance Authority Revenue, Subordinated Lien, Public Project Revolving Fund, NATL	5.000%	6/15/19	1,415,000	1,523,247
<i>Total New Mexico</i>				<i>2,802,756</i>
<b>New York - 7.4%</b>				
New York State Thruway Authority General Revenue, Junior Indebtedness Obligations	5.000%	5/1/19	2,000,000	2,330,440
New York State Thruway Authority Revenue	5.000%	4/1/21	265,000	278,682 <sup>(g)(h)</sup>
New York State Thruway Authority Revenue, AMBAC	5.000%	4/1/21	1,735,000	1,824,196
New York State Thruway Authority, State Personal Income Tax Revenue, Transportation	5.000%	3/15/26	200,000	237,688
New York, NY, GO	5.000%	8/1/21	4,000,000	4,799,160
Utility Debt Securitization Authority, NY, Revenue, Restructuring	5.000%	12/15/27	1,000,000	1,209,570
<i>Total New York</i>				<i>10,679,736</i>
<b>North Carolina - 1.4%</b>				
North Carolina Eastern Municipal Power Agency, Power Systems Revenue	5.000%	1/1/26	1,750,000	1,949,518
<b>Ohio - 2.5%</b>				
Ohio State Air Quality Development Authority Revenue, FirstEnergy Generation Corp.	5.625%	6/1/18	1,000,000	1,124,250
Ohio State Water Development Authority, Pollution Control Facilities Revenue, FirstEnergy Nuclear Generation Corp.	3.375%	7/1/15	2,500,000	2,544,900 <sup>(a)(b)</sup>
<i>Total Ohio</i>				<i>3,669,150</i>
<b>Oklahoma - 1.9%</b>				
Grand River Dam Authority, OK, Revenue	5.000%	6/1/30	2,500,000	2,809,500



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**Oregon - 0.5%**

Portland, OR, River District Urban Renewal & Redevelopment	5.000%	6/15/28	570,000	651,111
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**Pennsylvania - 3.3%**

Montgomery County, PA, IDA Revenue, New Regional Medical Center Project, FHA	5.000%	8/1/24	1,925,000	2,232,480
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**See Notes to Schedule of Investments.**

## WESTERN ASSET INTERMEDIATE MUNI FUND INC.

## Schedule of investments (unaudited) (cont d)

August 31, 2014

SECURITY	RATE	MATURITY DATE	FACE AMOUNT	VALUE
<b>Pennsylvania - 3.3% (continued)</b>				
Philadelphia, PA, Gas Works Revenue, 7th General Ordinance, AMBAC	5.000%	10/1/17	\$ 1,000,000	\$ 1,129,930
Pittsburgh, PA, School District GO, AGM	5.375%	9/1/16	1,350,000	1,481,396
<i>Total Pennsylvania</i>				<i>4,843,806</i>
<b>Tennessee - 5.5%</b>				
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/20	2,030,000	2,333,972
Tennessee Energy Acquisition Corp., Gas Revenue	5.250%	9/1/23	4,940,000	5,696,660
<i>Total Tennessee</i>				<i>8,030,632</i>
<b>Texas - 6.1%</b>				
Dallas-Fort Worth, TX, International Airport Revenue, Refunding, AGM	5.500%	11/1/20	1,000,000	1,007,620 <sup>(c)(g)</sup>
North Texas Tollway Authority Revenue, NATL	5.125%	1/1/28	2,000,000	2,205,460
Sabine River Authority, Texas PCR, Southwestern Electric Power Co., NATL	4.950%	3/1/18	3,000,000	3,242,190
Texas State Department Housing Community Affairs Home Mortgage Revenue, RIBS, GNMA/FNMA/FHLMC-Collateralized	13.433%	7/2/24	125,000	129,267 <sup>(a)(c)</sup>
Texas State Municipal Gas Acquisition & Supply Corp. III, Gas Supply Revenue	5.000%	12/15/22	2,000,000	2,327,920
<i>Total Texas</i>				<i>8,912,457</i>
<b>Virginia - 4.8%</b>				
Pittsylvania County, VA, GO	5.500%	2/1/22	540,000	636,601
Pittsylvania County, VA, GO	5.500%	2/1/23	1,030,000	1,211,846
Pittsylvania County, VA, GO	5.600%	2/1/24	2,490,000	2,939,047
Virginia State Small Business Financing Authority Revenue, Elizabeth River Crossings OpCo LLC Project	5.000%	1/1/27	2,000,000	2,134,520 <sup>(c)</sup>
<i>Total Virginia</i>				<i>6,922,014</i>
<b>Washington - 0.8%</b>				
Washington State Health Care Facilities Authority Revenue, Multicare Health System	5.750%	8/15/29	1,000,000	1,165,530
<b>Wisconsin - 3.2%</b>				
Central Brown County, WI, Water Authority System Revenue	5.000%	11/1/35	2,105,000	2,394,101
La Crosse, WI, Resource Recovery Revenue, Refunding Bonds, Northern States Power Co. Project	6.000%	11/1/21	2,000,000	2,300,420 <sup>(c)</sup>
<i>Total Wisconsin</i>				<i>4,694,521</i>
<b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b>				
(Cost - \$175,979,557)				190,432,611

**SHORT-TERM INVESTMENTS - 2.4%**

**Florida - 0.3%**

Miami-Dade County, FL, IDA, Professional Modification, AAR Aircraft Services Inc., LOC-Wells Fargo Bank N.A.

0.100%      8/1/18      400,000      400,000<sup>(c)(i)(j)</sup>

**Illinois - 0.1%**

Illinois State Health Facilities Authority Revenue, Evanston Hospital Corp., SPA-Wells Fargo Bank N.A.

0.040%      6/1/35      195,000      195,000<sup>(i)(j)</sup>

**Massachusetts - 0.3%**

Massachusetts State HEFA Revenue, Partners Healthcare Systems, SPA-JPMorgan Chase

0.030%      7/1/27      400,000      400,000<sup>(i)(j)</sup>

**See Notes to Schedule of Investments.**

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.****Schedule of investments (unaudited) (cont d)****August 31, 2014**

<b>SECURITY</b>	<b>RATE</b>	<b>MATURITY DATE</b>	<b>FACE AMOUNT</b>	<b>VALUE</b>
<b>New York - 1.1%</b>				
New York City, NY, GO, SPA-Dexia Credit Local	0.200%	8/1/28	\$ 500,000	\$ 500,000 <sup>(a)(b)</sup>
New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Second General Resolution, SPA-Dexia Credit Local	0.200%	6/15/32	500,000	500,000 <sup>(a)(b)</sup>
New York City, NY, TFA Revenue, Future Tax Secured, SPA-Citibank N.A.	0.040%	8/1/31	260,000	260,000 <sup>(a)(b)</sup>
New York City, NY, TFA Revenue, New York City Recovery Project Revenue, Subordinated, LIQ-Dexia Credit Local	0.200%	11/1/22	300,000	300,000 <sup>(a)(b)</sup>
<i>Total New York</i>				<i>1,560,000</i>
<b>North Carolina - 0.3%</b>				
Charlotte, NC, COP, 2003 Governmental Facilities Project, LIQ-Wells Fargo Bank N.A.	0.040%	6/1/33	300,000	300,000 <sup>(a)(b)</sup>
Raleigh, NC, COP, Downtown Improvement Project, SPA-Wells Fargo Bank N.A.	0.040%	2/1/34	200,000	200,000 <sup>(a)(b)</sup>
<i>Total North Carolina</i>				<i>500,000</i>
<b>Pennsylvania - 0.3%</b>				
Mercer County, PA, GO	0.080%	10/1/31	400,000	400,000 <sup>(a)(b)</sup>
<b>TOTAL SHORT-TERM INVESTMENTS</b>				
(Cost - \$3,455,000)				3,455,000
<b>TOTAL INVESTMENTS - 133.6%</b>				
(Cost - \$179,434,557#)				193,887,611
Auction Rate Cumulative Preferred Stock, at				
Liquidation Value - (34.4)%				(50,000,000)
Other Assets in Excess of Liabilities - 0.8%				1,265,296
<b>TOTAL NET ASSETS - 100.0%</b>				
				\$ 145,152,907

(a) Variable rate security. Interest rate disclosed is as of the most recent information available.

(b) Maturity date shown represents the mandatory tender date.

(c) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).

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- (d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.
- (e) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
- (f) Security is purchased on a when-issued basis.
- (g) Pre-Refunded bonds are escrowed with U.S. government obligations and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.
- (h) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (i) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.
- (j) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.
- # Aggregate cost for federal income tax purposes is substantially the same.

**See Notes to Schedule of Investments.**

**WESTERN ASSET INTERMEDIATE MUNI FUND INC.**

**Schedule of Investments (unaudited) (cont d)**

**August 31, 2014**

Abbreviations used in this schedule:

ACA	American Capital Assurance - Insured Bonds
AGM	Assured Guaranty Municipal Corporation - Insured Bonds
AMBAC	American Municipal Bond Assurance Corporation - Insured Bonds
CDA	Communities Development Authority
CMI	California Mortgage Insurance Program - Insured Bonds
COP	Certificates of Participation
CTFS	Certificates
EDA	Economic Development Authority
EFA	Educational Facilities Authority
FGIC	Financial Guaranty Insurance Company - Insured Bonds
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
GO	General Obligation
HEFA	Health & Educational Facilities Authority
IDA	Industrial Development Authority
LIQ	Liquidity Facility
LOC	Letter of Credit
NATL	National Public Finance Guarantee Corporation - Insured Bonds
PCFA	Pollution Control Financing Authority
PCR	Pollution Control Revenue
RIBS	Residual Interest Bonds
SCA	Syncora Capital Assurance Inc. - Insured Bonds
SPA	Standby Bond Purchase Agreement - Insured Bonds
TFA	Transitional Finance Authority

**Summary of Investments by Industry**

Power	19.8%
Industrial Revenue	16.0
Transportation	12.6
Health Care	9.8
Water & Sewer	8.5
Leasing	7.2
Local General Obligation	6.9
Education	5.8
Special Tax Obligation	4.6
Other	2.8
Housing	1.8
Pre-Refunded/Escrowed to Maturity	1.6
State General Obligation	0.8
Short-Term Investments	1.8
	100.0%

As a percentage of total investments. Please note that Fund holdings are as of August 31, 2014 and are subject to change.

**Ratings Table\***

**Standard & Poor's/Moody's/Fitch\*\***

AAA/Aaa	1.8%
AA/Aa	33.6
A	47.6
BBB/Baa	9.9
BB/Ba	1.7
B/B	0.8
A-1/VMIG 1	1.8
NR	2.8
	100.0%

\* As a percentage of total investments.

\*\* The ratings shown are based on each portfolio security's rating as determined by Standard & Poor's, Moody's or Fitch, each a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings are the opinions of the NRSRO and are not measures of quality or guarantees of performance. Securities may be rated by other NRSROs, and these ratings may be higher or lower. In the event that a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the highest rating category received from a NRSRO.

**See Notes to Schedule of Investments.**

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**Notes to Schedule of Investments (unaudited)**

**1. Organization and significant accounting policies**

Western Asset Intermediate Muni Fund Inc. (the Fund) was incorporated in Maryland on December 19, 1991 and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. 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.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(a) Investment valuation.** The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:



Level 1 quoted prices in active markets for identical investments

**Notes to Schedule of Investments (unaudited) (continued)**

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets and liabilities carried at fair value:

<b>ASSETS</b>				
<b>DESCRIPTION</b>	<b>QUOTED PRICES (LEVEL 1)</b>	<b>OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)</b>	<b>SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</b>	<b>TOTAL</b>
Municipal bonds		\$ 190,432,611		\$ 190,432,611
Short-term investments		3,455,000		3,455,000
Total investments		\$ 193,887,611		\$ 193,887,611

<b>LIABILITIES</b>				
<b>DESCRIPTION</b>	<b>QUOTED PRICES (LEVEL 1)</b>	<b>OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)</b>	<b>SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</b>	<b>TOTAL</b>
Other financial instruments:				
Futures contracts	\$ 63,083			\$ 63,083

See Schedule of Investments for additional detailed categorizations.

**(b) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded.

Futures contracts involve, to varying degrees, risk of loss. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(c) Securities traded on a when-issued basis.** The Fund may trade securities on a when-issued basis. In a when-issued transaction, the securities are purchased or sold by the Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of entering into the transaction.

Purchasing such securities involves risk of loss if the value of the securities declines prior to settlement. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

(d) **Security transactions.** Security transactions are accounted for on a trade date basis.

**2. Investments**

At August 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 15,038,427
Gross unrealized depreciation	(585,373)
Net unrealized appreciation	\$ 14,453,054

Notes to Schedule of Investments (unaudited) (continued)

At August 31, 2014, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Depreciation
<b>Contracts to Sell:</b>					
U.S. Treasury Long-Term Bonds	64	12/14	\$ 8,902,917	\$ 8,966,000	\$ (63,083)
<b>3. Derivative instruments and hedging activities</b>					

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

The following is a summary of the Fund's derivative instruments categorized by risk exposure at August 31, 2014.

Primary Underlying Risk	Futures Contracts Unrealized Depreciation
Interest Rate Risk	\$ (63,083)

During the period ended August 31, 2014, the volume of derivative activity for the Fund was as follows:

Futures contracts (to sell)	Average Market Value \$ 7,619,491
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**ITEM 2. CONTROLS AND PROCEDURES.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.
  
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

**ITEM 3. EXHIBITS.**

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

