

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Form N-CSR

January 25, 2016

[Table of Contents](#)

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, 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: November 30, 2015

Table of Contents

ITEM 1. REPORT TO STOCKHOLDERS.

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

Table of Contents

Annual Report

November 30, 2015

WESTERN ASSET
INTERMEDIATE MUNI
FUND INC. (SBI)

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

Table of Contents

What's inside	
Letter from the chairman	II
Investment commentary	III
Fund overview	1
Fund at a glance	5
Spread duration	6
Effective duration	7
Schedule of investments	8
Statement of assets and liabilities	15
Statement of operations	16
Statements of changes in net assets	17
Statement of cash flows	18
Financial highlights	19
Notes to financial statements	21
Report of independent registered public accounting firm	32
Board approval of management and subadvisory agreements	33
Additional information	39
Annual chief executive officer and principal financial officer certifications	45
Other shareholder communications regarding accounting matters	46
Dividend reinvestment plan	47
Important tax information	49
Fund objective	

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.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of Western Asset Intermediate Muni Fund Inc. for the twelve-month reporting period ended November 30, 2015. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

I am pleased to introduce myself as the new Chairman, President and Chief Executive Officer of the Fund, succeeding Kenneth D. Fuller. I am honored to have been appointed to my new role. During my 27 year career with Legg Mason, I have seen the investment management industry evolve and expand. Throughout these changes, maintaining an unwavering focus on our shareholders and their needs has remained paramount.

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:

Edgar Filing: WESTERN ASSET INTERMEDIATE MUNI FUND INC. - Form N-CSR

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,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 31, 2015

* 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.

II Western Asset Intermediate Muni Fund Inc.

Table of Contents

Investment commentary

Economic review

The pace of U.S. economic activity was mixed during the twelve months ended November 30, 2015 (the reporting period). Looking back, the U.S. Department of Commerce's revised figures showed that fourth quarter 2014 U.S. gross domestic product (GDP) growth was 2.1%. First quarter 2015 GDP growth then moderated to 0.6%. This was attributed to a number of factors, including a deceleration in personal consumption expenditures (PCE), along with negative contributions from exports, nonresidential fixed investment, and state and local government spending. Economic activity then accelerated, as second quarter 2015 GDP growth was 3.9%. The upturn was driven by increasing exports, accelerating PCE, declining imports, expanding state and local government spending, and rising nonresidential fixed investment. The U.S. Department of Commerce's final reading for third quarter 2015 GDP growth released after the reporting period ended was 2.0%. Decelerating growth was primarily due to a downturn in private inventory investment and decelerations in exports, PCE, nonresidential fixed investment, state and local government spending, and residential fixed investment.

The labor market significantly improved and was a 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 November 2015, unemployment was 5.0%, equaling its lowest level since April 2008.

The Federal Reserve Board (Fed) maintained the federal funds rateⁱⁱⁱ at a historically low range between zero and 0.25% during the twelve months ended November 30, 2015. However, at its meeting that ended on December 16, 2015, after the reporting period ended, the Fed raised the federal funds rate for the first time since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. At its meeting that concluded on October 28, 2015, the Fed said, "In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress both realized and expected toward its objectives of maximum employment and 2 percent inflation." However, in its official statement after the December meeting, the Fed said, "The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 31, 2015

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

Table of Contents

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 Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

ⁱⁱⁱ 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.

IV Western Asset Intermediate Muni Fund Inc.

Table of Contents

Fund overview

Q. What is the Fund's investment strategy?

A. 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 invests at least 80% of its total assets in municipal obligations. The Fund also maintains a dollar-weighted average effective maturity of between three and ten years. Under normal market conditions, the Fund will invest at least 80% of its total assets in debt securities that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization (NRSRO) or, if unrated, of equivalent quality as determined by the investment manager. In addition, up to 20% of the Fund's total assets may be invested in debt securities that are, at the time of investment, rated below investment grade (commonly known as high yield or junk bonds) by an NRSRO or, if unrated, of equivalent quality as determined by the investment manager. The Fund may use a variety of derivative instruments as part of its investment strategy or for hedging and/or risk management purposes.

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio management personnel, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are S. Kenneth Leech, Robert E. Amodeo, David T. Fare and Dennis J. McNamara.

Q. What were the overall market conditions during the Fund's reporting period?

A. Most spread sectors (non-Treasuries) posted positive returns, but generated mixed results versus equal-durationⁱ Treasuries over the twelve months ended November 30, 2015. The fixed income market was volatile at times given fluctuating global economic data, uncertainties regarding future Federal Reserve Board (Fed) monetary policy and a number of geopolitical issues. Assuming greater risk was generally not rewarded during the reporting period.

Both short- and long-term Treasury yields moved higher during the twelve months ended November 30, 2015. Two-year Treasury yields rose from 0.47% at the beginning of the period to 0.94% at the end of the period. Their peak of 0.94% occurred on November 23 and on November 30, 2015, and they were as low as 0.44% on January 15, 2015. Ten-year Treasury yields were 2.18% at the beginning of the period and ended the period at 2.21%. Their peak of 2.50% was on June 10, 2015 and their low of 1.68% occurred at the end of January and early February 2015.

The municipal bond market outperformed its taxable bond counterpart during the twelve-month reporting period. Over that time, the Barclays Municipal Bond Indexⁱⁱⁱ and the Barclays U.S. Aggregate Index^{iv} returned 3.10% and 0.97%, respectively. The overall

Table of Contents**Fund overview (cont d)**

creditworthiness of the municipal bond market has improved as the U.S. economy continues to expand, resulting in a better labor market and higher consumer confidence levels. After lagging the overall taxable bond market during five of the first six months of the reporting period, the municipal market outperformed over the final six months of the period.

Q. How did we respond to these changing market conditions?

A. There were several changes to the Fund during the reporting period. We reduced the Fund's overall risk exposure by opportunistically selling securities that we believe were fully valued, replacing them with ones that offered better upside potential. In addition, we had a portion of the Fund's portfolio pre-refunded. This acts to dampen the Fund's overall sensitivity to interest rates. The Fund employed the use of short U.S. Treasury futures during the reporting period to manage duration. This strategy slightly detracted from the Fund's performance.

During the reporting period, we utilized leverage in the Fund. This contributed to performance given the municipal market's positive results. We ended the period with leverage from preferred shares as a percentage of gross assets of roughly 25%.

Performance review

For the twelve months ended November 30, 2015, Western Asset Intermediate Muni Fund Inc. returned 6.52% based on its net asset value (NAV) and 7.73% based on its New York Stock Exchange Amex (NYSE Amex) market price per share. The Fund's unmanaged benchmark, the Barclays 1-15 Year Municipal Bond Index^{vi}, returned 2.56% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average^{vii} returned 3.91% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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 the twelve-month period, the Fund made distributions to common stock shareholders totaling \$0.48 per share.* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of November 30, 2015

Price Per Share	12-Month Total Return
\$10.47 (NAV)	6.52% **
\$10.06 (Market Price)	7.73%

All figures represent past performance and are not a guarantee of future results.

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 at NAV.

*For the tax character of distributions paid during the fiscal year ended November 30, 2015, please refer to page 30 of this report.

**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 Stock at 90% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 3.17%.

Table of Contents

Total return assumes the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Q. What were the leading contributors to performance?

A. The Fund outperformed the benchmark during the reporting period. The largest contributor to the Fund's relative performance was its tender and repurchase of approximately 95% of the Fund's outstanding Auction Rate Cumulative Preferred Stock at 90% of the per share liquidation preference.

The Fund's duration and yield curveⁱⁱⁱ positioning were positive for performance. Having a duration that was longer than that of the benchmark was rewarded. From a yield curve perspective, overweights to the ten to twenty year portions of the municipal yield curve were beneficial for performance.

From a sector perspective, overweights and security selection in the Industrial Revenue and Health Care sectors were additive for results. Security selection in the Power sector, coupled with an underweight to Pre-Refunded bonds, also enhanced the Fund's performance.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund's relative performance during the reporting period was its Treasury futures position. Elsewhere, security selection in the Transportation, Education and Special Tax Obligation sectors modestly detracted from performance.

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.

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.

Sincerely,

Western Asset Management Company

December 21, 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*

Table of Contents

Fund overview (cont d)

increase losses, and have a potentially large impact on Fund performance.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's portfolio composition is subject to change at any time.

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.

- ⁱ Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- ⁱⁱ The Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ⁱⁱⁱ The Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- ^{iv} 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.
- ^v 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.
- ^{vi} The Barclays 1-15 Year Municipal 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.
- ^{vii} Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 10 funds in the Fund's Lipper category.
- ^{viii} The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Table of Contents

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 November 30, 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.

Table of Contents

Spread duration (unaudited)

Economic exposure November 30, 2015

Total Spread Duration

SBI 5.16 years

Benchmark 4.79 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.

6 Western Asset Intermediate Muni Fund Inc. 2015 Annual Report

Table of Contents

Effective duration (unaudited)

Interest rate exposure November 30, 2015

Total Effective Duration

SBI 5.00 years

Benchmark 4.87 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.

Table of Contents**Schedule of investments**

November 30, 2015

Western Asset Intermediate Muni Fund Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
Municipal Bonds 131.9%				
<i>Alabama 1.1%</i>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants	5.000%	10/1/21	\$ 1,500,000	\$ 1,644,120
<i>Arizona 4.1%</i>				
Navajo Nation, AZ, Revenue	5.000%	12/1/25	250,000	270,643 ^(a)
Phoenix, AZ, Civic Improvement Corp., Wastewater System Revenue, Junior Lien	5.000%	7/1/27	1,000,000	1,202,180
Pinal County, AZ, Electric District No. 3 Revenue	4.000%	7/1/23	1,000,000	1,094,540
Pinal County, AZ, Electric District No. 3 Revenue	5.000%	7/1/24	1,760,000	2,024,299
Pinal County, AZ, Electric District No. 3 Revenue	5.000%	7/1/25	1,280,000	1,470,758
<i>Total Arizona</i>				<i>6,062,420</i>
<i>California 18.3%</i>				
Anaheim, CA, Public Financing Authority Lease Revenue	5.000%	5/1/26	2,000,000	2,373,780
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	1.110%	4/1/24	2,000,000	1,980,780 ^{(b)(c)}
California State PCFA, Water Furnishing Revenue	5.000%	7/1/27	2,000,000	2,210,720 ^{(a)(d)}
California State, GO	0.834%	12/1/17	1,500,000	1,502,775 ^{(b)(c)}
California Statewide CDA Revenue, Lodi Memorial Hospital, CMI	5.000%	12/1/22	2,000,000	2,159,240
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	565,000	568,254
Long Beach, CA, Bond Finance Authority Lease Revenue	5.000%	8/1/31	1,855,000	2,047,957
Los Angeles County, CA, Public Works Financing Authority, Lease Revenue:				
Multiple Capital Project II	5.000%	8/1/21	1,000,000	1,184,490
Multiple Capital Project II	5.000%	8/1/22	1,000,000	1,202,090
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	3,000,000	3,872,910
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/24	4,130,000	4,754,910
Modesto, CA, Irrigation District Electric Revenue	5.000%	7/1/25	2,000,000	2,296,940
River Islands, CA, Public Financing Authority Special Tax, Community Facilities District No. 2003-1				