

MANAGED MUNICIPALS PORTFOLIO INC
Form N-30D
November 08, 2002

Managed Municipals
Portfolio Inc.

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QUARTERLY REPORT

August 31, 2002

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Managed Municipals
Portfolio Inc.

Dear Shareholder:

We are pleased to provide the quarterly report for the Managed Municipals Portfolio Inc. ("Fund") for the three months ended August 31, 2002. In this report, we summarize what we believe to be the period's prevailing economic and market conditions and outline our investment strategy. A detailed summary of the Fund's performance can be found in the appropriate sections that follow. We hope you find this report to be useful and informative.

Special Notice to Shareholders

We are pleased to report that R. Jay Gerken, a managing director of Salomon Smith Barney Inc., has been elected Chairman, President and Chief Executive Officer of the board of the Fund replacing Heath B. McLendon, who has been appointed chairman of Salomon Smith Barney Inc.'s new Equity Research Policy Committee. Previously, Jay managed the Smith Barney Growth and Income Fund for six years; developed and managed the Smith Barney Allocation Series Inc. from inception in 1996 through the end of 2001; and was responsible for the investment design and implementation of Citigroup Asset Management's college savings programs with the states of Illinois and Colorado.

Shareholder Dividend Notice

On August 23, 2002, the Fund announced dividend distribution dates for September, October and November 2002 for an ordinary income dividend of \$0.055 per share for each month. The dividend distribution schedule appears below:

	Ex-dividend	Record	Payable
	-----	-----	-----
September	9/20/02	9/24/02	9/27/02
October	10/18/02	10/22/02	10/25/02
November	11/21/02	11/25/02	11/29/02

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Performance Review/1/

During the period ended August 31, 2002, the Fund distributed income dividends to shareholders totaling \$0.16 per share. The table below shows the annualized distribution rates and three-month total return based on the Fund's August 31, 2002 net asset value ("NAV") per share and its New York Stock Exchange ("NYSE") closing price./2/

Price Per Share	Annualized Distribution Rate/3/	Three-Month Total Return/3/
\$12.08 (NAV)	5.46%	4.82%
\$10.94 (NYSE)	6.03%	4.98%

In comparison, the Fund's Lipper Inc. ("Lipper")/4/ peer group of closed-end general municipal debt funds (leveraged) returned 4.33% based on NAV for the same period.

1Past performance is not indicative of future results.

2NAV is calculated by subtracting total liabilities and outstanding preferred stocks from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets of common stockholders) by the total number of the Fund's 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 at their market (NYSE) price as determined by supply of and demand for the Fund's shares.

3Total returns are based on changes in NAV or the market price, respectively. Total returns assume the reinvestment of all dividends and/or capital gains distributions in additional shares. Annualized distribution rate is the Fund's current monthly income dividend rate, annualized, and then divided by the NAV or the market price noted in this report. The annualized distribution rate assumes a current monthly income dividend rate of \$0.055 for twelve months. This rate is as of August 31, 2002 and is subject to change. The important difference between a total return and an annualized distribution rate is that the total return takes into consideration a number of factors including the fluctuation of the NAV or the market price during the period reported. The NAV fluctuation includes the effects of unrealized appreciation or depreciation in the Fund. Accordingly, since an annualized distribution rate only reflects the current monthly income dividend rate annualized, it should not be used as the sole indicator to judge the return you receive from your Fund investment.

4Lipper is an independent mutual-fund tracking organization. Average annual returns are based on the three-month period ended August 31, 2002, calculated among 55 funds in the closed-end general municipal debt funds (leveraged) fund category.

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Investment Strategy

The Fund seeks to maximize current interest income, which is excluded from gross income for regular federal income tax purposes to the extent consistent with prudent investment management and the preservation of capital./5/

The Fund invests at least 80% of its assets in municipal securities, which are rated investment-grade at the time of investment or are determined to be of equivalent quality. Municipal securities include securities issued by any of the 50 states and certain other municipal issuers, political subdivisions, agencies and public authorities that pay interest which is excluded from gross income for federal income tax purposes. The Fund focuses primarily on intermediate-term and long-term municipal securities, which have remaining maturities at the time of purchase of from three to more than 30 years. The Fund can invest up to 20% of its assets in below investment-grade/6/ or in unrated securities of equivalent quality (commonly known as "junk bonds"). Investment-grade bonds are those rated in any of the four highest long-term rating categories, or if unrated, of comparable quality.

Shareholder Notice: The following significant event occurred prior to the inception of the period and subsequent to the merger of Managed Municipal Portfolio II Inc. with and into the Fund, which was completed as of the close of business on April 26, 2002 (with shareholders of Managed Municipals Portfolio II Inc. becoming shareholders of the Fund): The Fund issued \$250 million in municipal auction rate cumulative preferred stock on May 22, 2002. This offering enabled the Fund to invest proceeds of the offering into additional securities that met the Fund's objectives. In general, leveraging techniques (such as this) may be beneficial in periods when interest rates are declining and short-term rates are substantially lower than intermediate- and long-term rates, as leveraging potentially tends to enhance both net asset value and yield. In periods of rising interest rates, however, the opposite typically happens: drops in per share net asset value are magnified, as falling prices on the increased asset base are spread over the same amount of common shares outstanding. Additionally, in this latter scenario, the yield advantage diminishes as short-term rates rise closer to the yields of the Fund's longer-term holdings.

5Certain investors may be subject to the Federal Alternative Minimum Tax ("AMT"), and state and local taxes may apply. Capital gains, if any, are fully taxable.

6Investment-grade bonds are those rated AAA, Aa, A and Baa by Moody's Investors Service or AAA, AA, A and BBB by Standard & Poor's Ratings Service, or that have an equivalent rating by any nationally recognized statistical rating organization, or are determined by the Manager to be of comparable quality.

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Portfolio Manager Market and Portfolio Overview

Throughout most of the reporting period, we generally maintained a favorable view of bonds mainly because of the economic environment in the U.S. In our opinion, low inflation, an extremely accommodative U.S. Federal Reserve Board ("Fed"), among other factors, were supportive of the fixed-income securities markets. However, we believe the bond markets were influenced not only by the economic and interest rate environments, but also by the effects of human

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emotion, particularly by investors' concerns that the equity market was volatile. It seemed to us that as the stock market fell, in an almost knee-jerk reaction, the bond market rose. So, not only do we feel many bond market fundamentals look strong, but we also believe that many investors have turned to government and municipal bonds simply as an emotional response to volatility in the stock market.

In terms of our investment strategy, we have been repositioning the Fund in an effort to take advantage of a potential improvement in the U.S. economy, which we anticipate will gradually occur into next year followed by a more powerful economic recovery moving into 2004. For example, we have reallocated capital away from some of the Fund's more aggressive positions, such as bonds with extremely long maturities, into those fixed-income securities that we consider to be slightly more conservative alternatives.

Portfolio Manager Market and Portfolio Outlook

In our view, the municipal bond market offers many favorable investment opportunities, as municipal securities with longer-term maturities offered yields as high as 95% of those on U.S. Treasury bonds with comparable maturities during the period. We anticipate that yields on municipals relative to those on U.S. Treasuries will remain in this territory in the foreseeable future.

We believe the Federal Open Market Committee ("FOMC")^{7/} will likely refrain from taking any action on maneuvering its short-term interest rate target. In our view, there are two basic developments that the FOMC would

⁷The FOMC is a policy-making body of the Federal Reserve System responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

⁸The fed funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans. The fed funds rate often points to the direction of U.S. interest rates.

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like to see become apparent before it would consider raising its target for the federal funds rate ("fed funds rate")^{8/}. First, we believe the FOMC wants firm evidence that the U.S. economy is well on the road to recovery. Second, we believe the FOMC is waiting until the enormous amount of capital currently invested in short-term instruments, such as money market funds and certificates of deposit ("CDs"), begins to be re-allocated back into the stock market, long-term bond market and the general economy. In our view, this stockpiling of assets in extremely short-term investments reflects investors' concerns about the stock markets. A similar type of build-up in short-term investments occurred in the early 1980s, although short-term rates during that particular period were extremely high. However, with current short-term rates hovering at historically low levels, in our opinion, much of this flight to short-term investments does not appear justified.

In our view, the U.S. economy appears to have bottomed out. Barring any further terrorism attacks or acts of war, we believe the economy may recover faster than what many people expect. Going forward, our plan entails focusing on municipal securities with higher credit ratings in an effort to avoid

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assuming any substantial credit risk.

Looking for Additional Information?

The Managed Municipals Portfolio Inc. is traded on the New York Stock Exchange under the symbol "MMU" and its closing market price is available in most newspapers under the New York Stock Exchange listings. Daily net asset value closing prices are available online under symbol "XMMUX". Barron's and The Wall Street Journal's Monday editions carry closed-end fund tables that provide weekly net asset value per share information. In addition, the Fund issues a quarterly allocation press release that can be found on most major financial web sites.

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Thank you for your investment in the Managed Municipals Portfolio Inc. We look forward to continuing to help you meet your investment objectives.

Sincerely,

/s/ R Jay Gerken
R. Jay Gerken
Chairman, President and
Chief Executive Officer

/s/ Joseph P. Deane
Joseph P. Deane
Vice President and
Investment Officer

September 20, 2002

The information provided in this letter by the portfolio manager represents the opinion of the portfolio manager and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager and may differ from those of other portfolio managers or of the firm as a whole. Furthermore, there is no assurance that certain securities will remain in or out of the Fund or that the percentage of the Fund's assets in various sectors will remain the same. Please refer to pages 8 through 19 for a list and percentage breakdown of the Fund's holdings. Also, please note that any discussion of the Fund's holdings, the Fund's performance, and the portfolio manager's views are as of August 31, 2002 and are subject to change.

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Take Advantage of the Fund's Dividend Reinvestment Plan!

Did you know that Fund investors may reinvest their dividends in an effort to take advantage of what can be one of the most effective wealth-building tools available today? When the Fund achieves its objectives, systematic investments by shareholders put time to work for them through the strength of compounding.

As an investor in the Fund, you can participate in its Dividend Reinvestment Plan ("Plan"), a convenient, simple and efficient way to reinvest your dividends and capital gains, if any, in additional shares of the Fund. Below is a short summary of how the Plan works.

Plan Summary

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If you are a Plan participant who has not elected to receive your dividends in the form of a cash payment, then your dividend and capital gain distributions will be reinvested automatically in additional shares of the Fund.

The number of common stock shares in the Fund you will receive in lieu of a cash dividend is determined in the following manner. If the market price of the common stock is equal to or exceeds 98% of the net asset value per share ("NAV") on the determination date, you will be issued shares by the Fund at a price reflecting the NAV, or 95% of the market price, whichever is greater.

If the market price is less than 98% of the NAV at the time of valuation (the close of business on the determination date), PFPC Global Fund Services ("Plan Agent"), will buy common stock for your account in the open market.

If the Plan Agent begins to purchase additional shares in the open market and the market price of the shares subsequently rises above the previously determined NAV before the purchases are completed, the Plan Agent will attempt to terminate purchases and have the Fund issue the remaining dividend or distribution in shares at the greater of the previously determined NAV or 95% of the market price. In that case, the number of Fund shares you receive will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares.

A more complete description of the current Plan appears in this report beginning on page 35.

To find more detailed information about the Plan and about how you can participate, please call PFPC Global Fund Services at (800) 331-1710.

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SCHEDULE OF INVESTMENTS August 31, 2002 (unaudited)

Face Amount	Rating(a)	Security	Value

MUNICIPAL BONDS AND NOTES -- 100.0%			
Alabama -- 3.4%			
\$24,510,000	AAA	Jefferson County, AL Sewer Revenue Warrants, Series A, FGIC-Insured, 5.375% due 2/1/36 (b)	\$ 25,167,113

Alaska -- 0.6%			
4,000,000	AA+	Valdez, AK Marine Term Revenue Refunding, BP Pipelines Inc. Project, Series A, 5.850% due 8/1/25	4,100,440

Arizona -- 1.6%			
1,500,000	AAA	Arizona State University, COP, MBIA-Insured: 5.100% due 7/1/24	1,531,275

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1,000,000	AAA	5.125% due 7/1/26	1,021,220
4,000,000	AAA	Mesa, AZ IDA, Discovery Health Systems, Series A, MBIA-Insured, 5.625% due 1/1/29	4,223,920
3,000,000	AAA	Phoenix, AZ Civic Improvement Corp. Airport Revenue, Senior Lien, Series B, FGIC-Insured, 5.250% due 7/1/22 (c)	3,069,120
2,350,000	AA+	Phoenix, AZ GO, Series B, 5.000% due 7/1/27	2,369,810

			12,215,345

California -- 5.2%			
7,040,000	Ba1*	California Educational Facilities Authority Revenue, (Pooled College & University Projects), Series A, (Partially Pre- Refunded -- Escrowed with U.S. government securities to 7/1/08 Call @ 101), 5.625% due 7/1/23	6,751,994
6,000,000	A3*	California Health Facilities Authority Revenue, (Cedars-Sinai Medical Center), Series A, 6.250% due 12/1/34	6,477,060
1,000,000	A+	California Health Facilities Financing Authority Revenue, Sutter Health, Series A, 6.250% due 8/15/35	1,079,660
5,000,000	AAA	California State Department of Veterans Affairs, Home Purchase Revenue, Series A, AMBAC-Insured, 5.350% due 12/1/27	5,164,650
7,000,000	AAA	Los Angeles County, CA COP, Antelope Valley Courthouse, Series A, AMBAC- Insured, 5.250% due 11/1/33	7,200,550
3,340,000	AAA	Rancho Cucamonga, CA Redevelopment Agency Tax Allocation, (Rancho Redevelopment Project), MBIA- Insured, 5.125% due 9/1/30	3,391,670

SEE NOTES TO
FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

California -- 5.2%			
\$ 2,000,000	AAA	Riverside, CA Unified School District GO, Series A, FGIC-Insured 5.000% due 2/1/27	\$ 2,017,680
2,750,000	AAA	Sacramento County, CA COP, (Public Facilities Project), MBIA-Insured,	

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2,500,000	AAA	5.375% due 2/1/19 San Francisco, CA City & County Airports Commission, International Airport Revenue, Second Series-27B, FGIC-Insured, 5.000% due 5/1/22	2,920,968
1,000,000	AAA	San Jose, CA Redevelopment Agency Tax Allocation, (Merged Area Redevelopment Project), MBIA-Insured, 5.000% due 8/1/32	1,005,670
			38,562,577

Colorado -- 11.3%			
4,000,000	AAA	Arapahoe County, CO Capital Improvement Trust Fund, E-470 Public Highway Authority Revenue, (Pre-Refunded -- Escrowed with U.S. government securities to 8/31/05 Call @ 103), 7.000% due 8/31/26 (b)	4,691,800
1,000,000	A-	Aspen, CO Sales Tax Revenue, 5.400% due 11/1/19	1,044,520
4,000,000	AAA	Colorado Educational & Cultural Facilities Revenue Refunding, (University of Denver Project), AMBAC-Insured, 5.375% due 3/1/23	4,158,800
4,000,000	A	Colorado Health Facilities Authority Revenue, Series B, Remarketed 7/8/98, 5.350% due 8/1/15	4,136,520
6,000,000	BBB+	Colorado Springs, CO Airport Revenue, Series A, 7.000% due 1/1/22 (c)	6,147,480
		Dawson Ridge, CO Metropolitan District No. 1, (Escrowed to Maturity with REFCO Strips):	
30,000,000	Aaa*	Series A, zero coupon due 10/1/22	10,396,200
60,000,000	Aaa*	Series B, zero coupon due 10/1/22 (b)	20,792,400
		Denver, CO City & County Airport Revenue, Series C:	
3,155,000	A	6.750% due 11/15/22 (c)	3,233,970
13,630,000	A	6.125% due 11/15/25 (c)	14,011,367

SEE NOTES TO
FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating (a)	Security	Value
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Colorado -- 11.3% (continued)

\$10,945,000	A	Escrowed to maturity with U.S. government securities, 6.125% due 11/15/25 (c) (d)	\$ 12,994,123
845,000	Aaa*	Pre-Refunded -- Escrowed with U.S. government securities to 11/15/02 Call @ 102, 6.750% due 11/15/22 (c)	870,713
2,000,000	AAA	Denver, CO City & County, COP Series B, AMBAC-Insured, 5.500% due 12/1/25	2,103,320

			84,581,213

Connecticut -- 1.0%

Connecticut State GO, Series B:			
1,600,000	AA	5.000% due 6/15/02	1,628,368
4,490,000	AA	5.500% due 6/15/21	4,794,063
1,000,000	AAA	Connecticut State Health & Education, (Child Care Facilities Project), Series C, AMBAC-Insured, 5.625% due 7/1/29	1,060,910

			7,483,341

Delaware -- 1.4%

10,000,000	AAA	Delaware State Economic Development Authority Revenue, (Polution Control-Delmarva Project-B), AMBAC-Insured, 5.200% due 2/1/19	10,563,000
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District of Columbia -- 1.5%

Metropolitan Washington Airports, DC Authority Airport System Revenue, Series A, FGIC-Insured:			
5,355,000	AAA	5.125% due 10/1/22 (c)	5,419,956
6,000,000	AAA	5.125% due 10/1/26 (c)	6,034,920

			11,454,876

Florida -- 6.1%

5,000,000	AAA	Florida State Board & Educational Capital Outlay GO, FSA-Insured, 5.000% due 6/1/24	5,034,150
Florida State Board of Education GO:			
3,000,000	AA+	Series A, 5.125% due 6/1/21	3,083,790
7,500,000	AAA	Series F, MBIA-Insured, 5.000% due 6/1/32	7,518,000
3,145,000	AAA	Florida State Department of Transportation GO, FGIC-Insured, 5.000% due 7/1/25	3,165,694
3,000,000	Aaa*	Hillsborough County, FL School Board COP, Series A, MBIA-Insured, 5.000% due 7/1/25	3,015,210

SEE NOTES TO FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Florida -- 6.1% (continued)			
\$ 6,500,000	BBB-	Martin County, FL IDA, (Indiantown Cogeneration Project), Series A, 7.875% due 12/15/25 (c)	\$ 6,732,700
1,290,000	AAA	Miami Beach, FL Stormwater Revenue, FGIC-Insured, 5.375% due 9/1/30	1,331,267
2,000,000	Aaa*	Orange County, FL School Board, COP, Series A, MBIA-Insured, 5.250% due 8/1/23	2,047,960
900,000	VMIG 1*	Palm Beach County, FL Health Authority Facilities Revenue, (Bethesda Healthcare System Project), 1.800% due 12/1/31 (g)	900,000
10,000,000	AAA	Palm Beach County, FL School Board COP, Series C, FSA-Insured, 5.000% due 8/1/27	10,030,500
2,500,000	Aaa*	South Brevard, FL Recreational Facilities Improvement, Special District, AMBAC-Insured, 5.000% due 7/1/20	2,561,600

			45,420,871

Georgia -- 1.8%			
6,000,000	AAA	Augusta, GA Water & Sewer Revenue, FSA-Insured, 5.250% due 10/1/26	6,134,460
2,180,000	A3*	Private Colleges & Universities Authority Revenue, (Mercer University Project): 5.750% due 10/1/21	2,315,727
2,000,000	A3*	Series A: 5.250% due 10/1/25	2,021,500
1,000,000	A3*	5.375 due 10/1/29	1,016,830
2,000,000	BBB-	Savannah, GA EDA Revenue, College of Art & Design Inc., 6.900% due 10/1/29	2,130,160

			13,618,677

Hawaii -- 0.5%			
4,000,000	A	Hawaii State Department of Budget & Finance, Special Purpose Revenue, Kaiser Permanente, Series A, 5.100% due 3/1/14	4,096,840

Illinois -- 3.4%			
4,095,000	AAA	Chicago, IL GO, Series D, FGIC-Insured, 5.500% due 1/1/35	4,227,064
7,400,000	AAA	Chicago, IL Skyway Toll Bridge Revenue, AMBAC-Insured, 5.500% due 1/1/31	7,709,024
8,000,000	A	Illinois Health Facilities Authority Revenue, OSF Healthcare Systems, 6.250% due 11/15/29	8,420,480

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Illinois -- 3.4% (continued)			
\$ 5,000,000	AAA	Illinois State GO, MBIA-Insured, 5.625% due 6/1/25	\$ 5,250,450

			25,607,018

Indiana -- 0.7%			
5,000,000	A1*	Indiana Port Commission Revenue Refunding, (Cargill Inc. Project), 6.875% due 5/1/12	5,124,350

Iowa -- 0.2%			
1,500,000	AA-	Dawson, IA IDR, (Cargill Inc. Project), 6.500% due 7/15/12 (e)	1,533,600

Kansas -- 0.2%			
1,250,000	AAA	Scott County, KS Unified School District No. 446 GO, FGIC-Insured, 5.000% due 9/1/22	1,275,612

Louisiana -- 0.8%			
5,500,000	A1*	St. Martin Parish, LA Industrial Revenue, (Cargill Inc. Project), 6.625% due 10/1/12 (e)	5,621,660

Maine -- 0.4%			
2,500,000	AA+	Maine State Housing Authority, Mortgage Revenue, Series C, 5.300% due 11/15/23	2,560,100

Maryland -- 0.8%			
		Baltimore, MD Wastewater Project Revenue, Series A, FGIC-Insured:	
2,500,000	AAA	5.125% due 7/1/32	2,537,425
3,385,000	AAA	5.200% due 7/1/32	3,455,239

			5,992,664

Massachusetts -- 5.5%			
3,000,000	AA+	Massachusetts Bay Transportation Authority, Sales Tax Revenue, Series A, 5.500% due 7/1/30	3,131,430
1,125,000	Aaa*	Massachusetts Development Finance Agency, (Merrimack College Issue), MBIA-Insured,	

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1,850,000	AAA	5.200% due 7/1/32 Massachusetts Health & Educational Facilities Authority, (University of Massachusetts Projects), Series C, FGIC-Insured, 5.125% due 10/1/27	1,142,213
4,400,000	A-1+	Massachusetts State, Health & Educational Facilities Authority Revenue GO, Series C, MBIA-Insured, 1.900% due 7/1/10 (g)	1,872,440
25,000,000	Aa2*	Massachusetts State, GO of Commonwealth, Series C, 5.250% due 11/1/30 (b)	4,400,000
			25,591,250

SEE NOTES TO
FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Massachusetts -- 5.5% (continued)			
\$ 5,000,000	AAA	Massachusetts State Special Obligation Revenue, Series A, FGIC-Insured, 5.000% due 6/1/21	\$ 5,100,100

			41,237,433

Michigan -- 3.1%			
3,000,000	AAA	Anchor Bay, MI School District GO, Q-SBLF-Insured, 5.000% due 5/1/29	2,991,030
5,000,000	AAA	East Lansing, MI School District GO, Q-SBLF-Insured, 5.625% due 5/1/30	5,251,500
2,345,000	AAA	Michigan State COP, AMBAC-Insured: 5.500% due 6/1/19	2,507,720
6,000,000	AAA	5.500% due 6/1/27	6,236,880
12,000,000	NR	Michigan State Strategic Fund Resources Recovery, Limited Obligation Revenue, (Central Wayne Energy Recovery L.P. Project), Series A, 7.000% due 7/1/27 (c) (f)	6,000,000

			22,987,130

Minnesota -- 1.5%			
1,500,000	AAA	Dakota County, MN Community Development Agency, MFH Revenue, FNMA-Collateralized, 5.625% due 2/1/26	1,547,520

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2,500,000	A1*	Duluth, MN IDA, Seaway Port Authority, Dock & Wharf Revenue, (Cargill Inc. Project), 6.800% due 5/1/12	2,563,550
		Minneapolis & St. Paul, MN Community Airport Revenue, FGIC-Insured:	
2,000,000	AAA	Series A, 5.125% due 1/1/25	2,026,220
4,000,000	AAA	Sub-Series C, 5.250% due 1/1/26	4,094,440
1,225,000	AA+	Minnesota State Housing Financing Agency, Single-Family Mortgage, Series I, 5.500% due 1/1/17	1,282,526

			11,514,256

Missouri -- 0.5%			
1,500,000	AAA	Greene County, MO Reorganized School, District No R-8 GO, FSA-Insured, 5.100% due 3/1/22	1,540,875

SEE NOTES TO
FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Missouri -- 0.5% (continued)			
\$ 2,000,000	AAA	St. Louis, MO Airport Revenue, (Airport Development Program), Series A, MBIA-Insured, 5.125% due 7/1/22	\$ 2,049,060

			3,589,935

Montana -- 1.2%			
10,095,000	NR	Montana State Board Investment Resource Recovery Revenue, (Yellowstone Energy L.P. Project), 7.000% due 12/31/19 (c)	8,834,437

Nevada -- 0.9%			
4,650,000	Baa2*	Clark County, NV IDR, (Southwest Gas Corp. Project), Series B, 7.500% due 9/1/32 (c)	4,758,717
2,250,000	AAA	Truckee Meadows, NV Water Authority Revenue, Series A, FSA-Insured, 5.000% due 7/1/25	2,251,440

			7,010,157

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New Jersey -- 4.4%			
5,200,000	A+	Hudson County, NJ Improvement Authority, 6.624% due 8/1/25	5,369,468
8,000,000	A+	New Jersey Health Care Facilities Financing Authority Revenue, Robert Wood Johnson University Hospital, 5.700% due 7/1/20	8,464,320
2,395,000	AA-	New Jersey State Highway Authority, Garden State Parkway General Revenue, 5.625% due 1/1/30	2,549,310
		Tobacco Settlement Financing Corp., NJ Asset-Backed bonds:	
2,000,000	A	5.750% due 6/1/32	1,949,760
15,000,000	A	6.000% due 6/1/37	14,677,050

			33,009,908

New Mexico -- 0.3%			
2,360,000	AAA	New Mexico Mortgage Financing Authority, Single-Family Mortgages, Series D-3, 5.625% due 9/1/28	2,430,328

New York -- 9.6%			
30,000,000	AA-	Metropolitan Transportation Authority, Series A, 5.125% due 1/1/24 (b)	30,309,300
		Nassau Health Care Corp., NY Health Systems Revenue, FSA-Insured:	
2,000,000	AAA	5.500% due 8/1/19	2,152,940
3,000,000	AAA	5.750% due 8/1/29	3,220,140

SEE NOTES TO
FINANCIAL STATEMENTS.

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[GRAPHIC]

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[GRAPHIC]

SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

New York -- 9.6% (continued)			
\$ 6,000,000	AA	New York City, NY Municipal Water Financing Authority, Water & Sewer System Revenue, Series D, 5.250% due 6/15/25	\$ 6,156,420
5,000,000	AAA	New York State Dormitory Authority Revenue, Series B, FSA-Insured, 5.500% due 5/15/30	5,224,450
1,000,000	AAA	New York State Dormitory Authority Revenue, (Willow Towers Inc. Project),	

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3,000,000	AAA	GNMA-Collateralized, 5.250% due 2/1/22 New York State Thruway Authority Highway & Bridge Revenue, Series B-1, FGIC-Insured, 5.400% due 4/1/17	1,031,240 3,233,010
17,000,000	AAA	Port Authority of New York & New Jersey, NY GO, FGIC-Insured, 5.250 due 5/15/37 (c)	17,146,540
3,000,000	AA-	Triborough Bridge & Tunnel Authority, NY GO, Series A, 5.125% due 1/1/31	3,023,010
			71,497,050

Ohio -- 8.4%			
4,500,000	Aa2*	Bexley, OH City School District GO, 5.125% due 12/1/27	4,540,275
2,000,000	AAA	Canton, OH City School District GO, Series A, MBIA-Insured, 5.500% due 12/1/20	2,140,520
1,300,000	AA+	Cincinnati, OH Water System Revenue, 5.125% due 12/1/21	1,335,373
2,250,000	AAA	Cleveland, OH Airport System Revenue, Series A, FSA-Insured, 5.000% due 1/1/31	2,249,843
2,300,000	A-1+*	Cuyahoga County, OH Hospital Revenue, Series B, 1.400% due 1/1/16 (g)	2,300,000
3,000,000	AAA	Cuyahoga County, OH Hospital Revenue Refunding, University Hospitals Health System Inc., AMBAC-Insured, 5.500% due 1/15/30	3,116,250
25,000,000	Aaa*	Hamilton County, OH Sales Tax Revenue, AMBAC-Insured, 5.250% due 12/1/32	25,534,250
5,990,000	AAA	Lucas County, OH Hospital Revenue, Promedia Healthcare Obligation Group, AMBAC-Insured, 5.375% due 11/15/29	6,162,392
3,025,000	Aaa*	Muskingum County, OH GO, Refunding, County Facilities Improvement, MBIA-Insured, 5.125% due 12/1/19	3,164,089

SEE NOTES TO
FINANCIAL STATEMENTS.

[GRAPHIC]

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[GRAPHIC]

SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Ohio -- 8.4% (continued)			
\$ 1,375,000	AAA	Ohio State Higher Educational Facility Commission Revenue, (University of Dayton Project), AMBAC-Insured,	

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		5.500% due 12/1/25	\$ 1,450,240
2,500,000	AAA	Portage County, OH GO, MBIA-Insured, 5.250% due 12/1/17	2,646,225
1,500,000	A3*	Steubenville, OH Hospital Revenue, 6.375% due 10/1/20	1,593,585
1,000,000	AAA	Summit County, OH GO, FGIC-Insured: 5.000% due 12/1/21	1,026,770
500,000	AAA	5.000% due 12/1/22	510,750
1,500,000	Aaa*	Trumbull County, OH MBIA-Insured, 5.200% due 12/1/20	1,578,180
2,000,000	AAA	University of Cincinnati, OH General Receipts Revenue, Series A, FGIC-Insured, 5.250% due 6/1/24	2,059,800
1,500,000	AAA	Warrensville Heights, OH City School District, School Improvements, FGIC-Insured, 5.625% due 12/1/20	1,634,040
-----			63,042,582

Oregon -- 2.5%			
3,210,000	AA	Clackamas County, OR Hospital Facilities Authority Revenue, Legacy Health System, 5.750% due 5/1/16	3,494,984
4,895,000	AA+	Oregon State Department of Transportation, Highway User Tax Revenue Series A, 5.125% due 11/15/23	4,997,942
10,000,000	AA	Oregon State Veterans Welfare, GO Series 82, 5.500% due 12/1/42	10,224,400
-----			18,717,326

South Carolina -- 6.4%			
6,250,000	AAA	Grand Strand Water & Sewer Authority, SC Waterworks & Sewer System Revenue, FSA-Insured, 5.000% due 6/1/31	6,278,250
15,000,000	AA-	Greenville County, SC School District Installment Purchase Revenue, 5.500% due 12/1/28	15,388,650
20,000,000	AAA	South Carolina State Public Service Authority Revenue, Series B, FSA-Insured 5.125% due 1/1/37	20,197,800

SEE NOTES TO
FINANCIAL STATEMENTS.

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[GRAPHIC]

SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

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Amount	Rating(a)	Security	Value

South Carolina -- 6.4% (continued)			
		South Carolina Transportation Infrastructure Bank Revenue, Series A:	
\$ 2,505,000	Aaa*	AMBAC-Insured, 5.125% due 10/1/31	\$ 2,538,467
3,000,000	AAA	MBIA-Insured, 5.500% due 10/1/30	3,126,810

			47,529,977

Tennessee -- 3.4%			
1,150,000	NR	Hardeman County, TN Correctional Facilities Corp., 7.750% due 8/1/17	1,155,957
		Memphis-Shelby County, TN Sports Authority Income Revenue, (Memphis Arena Project), Series A, AMBAC-Insured:	
6,420,000	AAA	5.125% due 11/1/21	6,622,230
14,500,000	AAA	5.125% due 11/1/28	14,676,610
3,000,000	AA	Tennessee State GO, Series A, 5.250% due 3/1/17	3,188,700

			25,643,497

Texas -- 2.4%			
1,595,000	AAA	Burleson, TX ISD, GO, PSFG, 6.750% due 8/1/24	1,805,030
		Fort Worth, TX International Airport Facility Improvement Corp. Revenue, (American Airlines Inc. Project):	
12,000,000	BB-	6.375% due 5/1/35 (c)	6,943,560
3,400,000	BB-	Series A, 5.950% due 5/1/29 (c)	2,959,904
3,000,000	BB-	Series B, 6.050% due 5/1/29 (c)	2,612,400
1,000,000	AAA	Harris County, TX Health Facilities, Development Corp., Hospital Revenue, School Health Care Systems, Series B, (Escrowed to maturity with U.S. Government Securities), 5.750% due 7/1/27	1,141,620
2,400,000	A-1+	Lower Neches Valley Authority, Industrial Development Corp., (Exxon-Mobile Corp. Project), Series A, 1.800% due 2/1/31 (g)	2,400,000

			17,862,514

Virginia -- 3.8%			
		Virginia State HDA, MFH:	
1,245,000	AA+	Series D, Sub-Series D-3-Remarketed 5/30/96, 5.700% due 7/1/09	1,320,397
715,000	AA+	Series F, Sub-Series F-1-Remarketed 9/12/95, 6.400% due 7/1/17	731,867

SEE NOTES TO FINANCIAL STATEMENTS.

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[GRAPHIC]

SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Virginia -- 3.8% (continued)			
\$ 1,235,000	AAA	Series H, AMBAC-Insured, 6.300% due 11/1/15	\$ 1,307,766
10,000,000	AAA	Series H, Sub-Series H-1, MBIA-Insured, 5.350% due 7/1/31 (g)	10,190,000
		Series K:	
600,000	AA+	5.800% due 11/1/10	643,386
925,000	AA+	5.900% due 11/1/11	988,039
13,285,000	AAA	Richmond, VA Public Utility Revenue, FSA-Insured, 5.000% due 1/15/33	13,343,321

			28,524,776

Washington -- 2.7%			
		Chelan County, WA GO, Public Utilities, District No. 1, Columbus River Rock:	
22,685,000	AAA	Series A, MBIA-Insured, zero coupon due 6/1/22	8,016,198
4,750,000	AA	Series B, Remarketed 7/1/92, Mandatory put 7/1/19, 6.750% due 7/1/62 (c)	5,119,597
6,980,000	AAA	Washington State GO, Variable Purpose-Series 02-A, FSA-Insured, 5.000% due 7/1/25	6,989,353

			20,125,148

West Virginia -- 1.2%			
		West Virginia State Housing Development Fund, Housing Finance:	
3,845,000	AAA	Series B, 5.300% due 5/1/24	3,935,819
5,000,000	AAA	Series C, 5.350% due 11/1/27	5,117,850

			9,053,669

Wisconsin -- 1.3%			
		Wisconsin Housing & Economic Development Authority, Home Ownership Revenue, Series A:	
1,490,000	AA	6.450% due 3/1/17	1,546,992
1,370,000	AA	5.650% due 11/1/23	1,394,619
4,070,000	AA-	Wisconsin State GO, Series B, 6.600% due 1/1/22 (c)	4,084,652
1,100,000	A	Wisconsin State Health & Educational Facilities Authority Revenue: Kenosha Hospital & Medical Center Project, 5.700% due 5/15/20	1,116,995

SEE NOTES TO
FINANCIAL STATEMENTS.

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SCHEDULE OF INVESTMENTS
August 31, 2002 (unaudited) (continued)

Face Amount	Rating(a)	Security	Value

Wisconsin -- 1.3% (continued)			
\$ 1,250,000	AAA	The Medical College of Wisconsin Inc. Project, MBIA-Insured, 5.400% due 12/1/16	\$ 1,325,550

			9,468,808

TOTAL INVESTMENTS -- 100%			
(Cost -- \$718,813,510**)			\$747,058,228

- (a) All ratings are by Standard & Poor's Ratings Service, except for those which are identified by an asterisk (*), are rated by Moody's Investor's Service.
 - (b) All or a portion of this security has been segregated by the custodian for futures contract commitments.
 - (c) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax.
 - (d) Pre-Refunded bonds escrowed by U.S. government securities and bonds escrowed to maturity by U.S. government securities are considered by manager to be triple-A rated even if issuer has not applied for new ratings.
 - (e) 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.
 - (f) Security is in default
 - (g) Variable rate obligation payable at par on demand at any time on no more than seven days notice.
- ** Aggregate cost for Federal income tax purposes is substantially the same.

See pages 21 and 22 for definitions of ratings and certain security descriptions.

SEE NOTES TO
FINANCIAL STATEMENTS.

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SUMMARY OF INVESTMENTS BY COMBINED RATINGS
August 31, 2002 (unaudited)

[GRAPHIC OF]

Moody's	and/or	Standard & Poor's	Percentage of Total Investments
Aaa		AAA	56.7%
Aa		AA	20.2
A		A	14.4
Baa		BBB	2.7
Ba		BB	2.6
VMIG 1/P-1		SP-1/A-1	1.4
NR		NR	2.0

			100.0%
			=====

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BOND RATINGS
(unaudited)

The definitions of the applicable rating symbols are set forth below:

Standard & Poor's Ratings Service ("Standard and Poor's") -- Ratings from "AA" to "B" may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major rating categories.

- AAA --Bonds rated "AAA" have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
- AA --Bonds rated "AA" have a very strong capacity to pay interest and repay principal and differ from the highest rated issue only in a small degree.
- A --Bonds rated "A" have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
- BBB --Bonds rated "BBB" are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories.
- BB and B --Bonds rated "BB" and "B" are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "B" the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

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Moody's Investors Service ("Moody's") -- Numerical modifiers 1, 2 and 3 may be applied to each generic rating from "Aa" to "Ba," where 1 is the highest and 3 the lowest ranking within its generic category.

- Aaa --Bonds rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
- Aa --Bonds rated "Aa" are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in "Aaa" securities.
- A --Bonds rated "A" possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.
- Baa --Bonds rated "Baa" are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
- Ba --Bonds rated "Ba" are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
- NR --Indicates that the bond is not rated by Standard & Poor's or Moody's.

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SHORT-TERM SECURITY RATINGS
(unaudited)

- SP-1 --Standard & Poor's highest rating indicating very strong or strong capacity to pay principal and interest; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
- A-1 --Standard & Poor's highest commercial paper and variable-rate demand obligation (VRDO) rating indicating that the degree of safety regarding timely payment is either overwhelming or very strong; those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign.
- VMIG 1 --Moody's highest rating for issues having a demand feature -- VRDO.
- P-1 --Moody's highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating.

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SECURITY DESCRIPTIONS
(unaudited)

ABAG --Association of Bay Area Governments
AIG --American International Guaranty
AMBAC --AMBAC Indemnity Corporation
BAN --Bond Anticipation Notes
BIG --Bond Investors Guaranty
CDA --Community Development Administration
CGIC --Capital Guaranty Insurance Company
CHFCLI --California Health Facility Construction Loan Insurance
COP --Certificate of Participation
EDA --Economic Development Authority
ETM --Escrowed To Maturity
FAIRS --Floating Adjustable Interest Rate Securities
FGIC --Financial Guaranty Insurance Company
FHA --Federal Housing Administration
FHLMC --Federal Home Loan Mortgage Corporation
FNMA --Federal National Mortgage Association
FRTC --Floating Rate Trust Certificates
FSA --Financial Security Assurance
GIC --Guaranteed Investment Contract
GNMA --Government National Mortgage Association
GO --General Obligation
HDA --Housing Development Authority
HDC --Housing Development Corporation
HFA --Housing Finance Authority
IDA --Industrial Development Authority
IDB --Industrial Development Board
IDR --Industrial Development Revenue
INFLOS --Inverse Floaters
ISD --Independent School District
LOC --Letter of Credit
MBIA --Municipal Bond Investors Assurance Corporation
MFH --Multi-Family Housing
MVRICS --Municipal Variable Rate Inverse Coupon Security
PCR --Pollution Control Revenue
PFA --Public Finance Authority
PSFG --Permanent School Fund Guaranty
Q-SBLF --Qualified School Bond Loan Fund
RAN --Revenue Anticipation Notes
RIBS --Residual Interest Bonds
RITES --Residual Interest Tax-Exempt Securities
SYCC --Structured Yield Curve Certificate
TAN --Tax Anticipation Notes
TECP --Tax Exempt Commercial Paper
TOB --Tender Option Bonds
TRAN --Tax and Revenue Anticipation Notes
VAN --Veterans Administration
VRDD --Variable Rate Daily Demand
VRWE --Variable Rate Wednesday Demand

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STATEMENT OF ASSETS AND LIABILITIES
(unaudited)

August 31, 2002

ASSETS:

Investments, at value (Cost -- \$718,813,510)	\$747,058,228
Interest receivable	9,115,932
Receivable for securities sold	550,000
Receivable from manager	61,648
Other assets	165,878

Total Assets 756,951,686

LIABILITIES:

Dividends payable	762,173
Payable to bank	318,799
Payable to broker -- variation margin	218,750
Administration fee payable	129,688
Accrued preferred stock distribution payable	28,641
Accrued expenses	75,910

Total Liabilities 1,533,961

Series M, T, W, Th and F Auction Rate Cumulative Preferred Stock
(10,000 shares authorized; 10,000 shares issued at \$25,000 per
share for each Series) (Note 7) 250,000,000

Total Net Assets \$505,417,725

NET ASSETS:

Par value of capital shares	\$ 41,856
Capital paid in excess of par value	509,148,009
Undistributed net investment income	524,289
Accumulated net realized loss from security transactions	(29,932,085)
Net unrealized appreciation of investments and futures contracts	25,635,656

Total Net Assets
(Equivalent to \$12.08 a share on 41,855,576 capital shares of
\$0.001 par value outstanding; 500,000,000 capital shares
authorized) \$505,417,725

SEE NOTES TO
FINANCIAL STATEMENTS.

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[GRAPHIC]

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[GRAPHIC]

STATEMENT OF OPERATIONS

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(unaudited)

Three Months Ended
August 31, 2002

INVESTMENT INCOME:	
Interest	\$ 9,744,641

EXPENSES:	
Investment advisory fee (Note 3)	1,163,563
Administration fee (Note 3)	377,456
Auction fees	155,828
Shareholder communications	50,358
Audit and legal	50,059
Shareholder and system servicing fees	23,559
Directors' fees	17,733
Custody	11,947
Registration fees	7,574
Pricing service fees	1,479
Other	39,697

Total Expenses	1,899,253

Net Investment Income	7,845,388

REALIZED AND UNREALIZED GAIN ON INVESTMENTS (NOTE 4):	
Realized Gain From Security Transactions (excluding short-term securities):	
Proceeds from sales	44,064,073
Cost of securities sold	43,357,907

Net Realized Gain	706,166

Increase in Net Unrealized Appreciation (Note 1)	14,855,027

Net Gain on Investments	15,561,193

Distributions Paid to Auction Rate Cumulative Preferred Stockholders From Net Investment Income	(835,609)

Increase in Net Assets From Operations	\$22,570,972

SEE NOTES TO
FINANCIAL STATEMENTS.

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[GRAPHIC]

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[GRAPHIC]

STATEMENTS OF CHANGES IN NET ASSETS

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	Three Months Ended	
	August 31, 2002 (unaudited)	Year Ended May 31, 2002

OPERATIONS:		
Net investment income	\$ 7,845,388	\$ 19,666,716
Net realized gain (loss)	706,166	(11,512,844)
Increase in net unrealized appreciation	14,855,027	12,747,045
Distributions Paid to Auction Rate Cumulative Preferred Stockholders from net investment income	(835,609)	(103,927)

Increase in Net Assets From Operations	22,570,972	20,796,990

DISTRIBUTIONS PAID TO:		
Common Stock shareholders from net investment income	(6,487,614)	(19,609,532)

Decrease in Net Assets From Distributions to Shareholders	(6,487,614)	(19,609,532)

FUND SHARE TRANSACTIONS (NOTES 7 AND 8):		
Underwriting commissions and expenses for the issuance of Auction Rate Cumulative Preferred Stock (Note 7)	--	(2,793,000)
Net asset value of shares issued in connection with the transfer of Managed Municipals Portfolio II Inc.'s net assets	--	117,162,040

Increase in Net Assets From Fund Share Transactions	--	114,369,040

Increase in Net Assets	16,083,358	115,556,498
NET ASSETS:		
Beginning of period	489,334,367	373,777,869

End of period*	\$505,417,725	\$489,334,367

* Includes undistributed net investment income of:	\$524,289	\$2,124

SEE NOTES TO
FINANCIAL STATEMENTS.

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NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

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Managed Municipals Portfolio Inc. ("Fund"), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company.

The significant accounting policies consistently followed by the Fund are: (a) security transactions are accounted for on trade date; (b) securities are valued at the mean between bid and ask prices provided by an independent pricing service that are based on transactions in municipal obligations, quotations from municipal bond dealers, market transactions in comparable securities and various relationships between securities; (c) securities maturing within 60 days or less are valued at cost plus accreted discount, or minus amortized premium, which approximates value; (d) gains or losses on sale of securities are calculated by using the specific identification method; (e) interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis; (f) dividends and distributions to shareholders are recorded on the ex-dividend date; (g) the Fund intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all Federal income and excise taxes; (h) the character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. At May 31, 2002, reclassifications were made to the Fund's capital accounts to reflect permanent book/tax differences and income and gains available for distributions under income tax regulations. Accordingly, a portion of overdistributed net investment income amounting to \$13,447 was reclassified from paid-in capital. Net investment income, net realized gains and net assets were not affected by this adjustment; and (i) estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

In November 2000, the American Institute of Certified Public Accountants ("AICPA") issued a revised Audit and Accounting Guide for Investment Companies ("Guide"). This revised version is effective for financial statements issued for fiscal years beginning after December 15, 2000. The revised Guide requires the Fund to amortize premium and accrete all discounts on all fixed-income securities. The Fund adopted this requirement effective April 1, 2001. This change does not affect the Fund's net asset value, but does change the classification of certain amounts in the statement of operations. For the three

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[GRAPHIC]

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

months ended August 31, 2002, interest income decreased by \$19,228, net realized loss increased by \$695 and the change in net unrealized appreciation of investments decreased by \$19,923. In addition, on May 31, 2002, the Fund recorded adjustments to increase the cost of securities and increase accumulated undistributed net investment income by \$59,169 to reflect the cumulative effect of this change up to the date of the adoption.

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2. EXEMPT-INTEREST DIVIDENDS AND OTHER DISTRIBUTIONS

The Fund intends to satisfy conditions that will enable interest from municipal securities, which is exempt from regular Federal income tax and from designated state income taxes, to retain such tax-exempt status when distributed to the shareholders of the Fund.

Capital gain distributions, if any, are taxable to shareholders, and are declared and paid at least annually.

3. INVESTMENT ADVISORY AGREEMENT, ADMINISTRATION AGREEMENT AND OTHER TRANSACTIONS

Smith Barney Fund Management LLC ("SBFM"), a subsidiary of Salomon Smith Barney Holdings Inc., which, in turn, is a subsidiary of Citigroup Inc. ("Citigroup"), acts as investment adviser to the Fund. The Fund pays SBFM a fee calculated at an annual rate of 0.70% of the average daily total net assets of the Fund. This fee is calculated daily and paid monthly.

SBFM also acts as the Fund's administrator for which the Fund pays a fee calculated at an annual rate of 0.20% of the average daily total net assets. This fee is calculated daily and paid monthly.

However, effective upon the issuance of the Fund's preferred shares, SBFM agreed to reduce its aggregate investment advisory and administrative fees to an aggregate annual rate of 0.65% on those assets of the Fund equal to the product of the number of preferred shares outstanding multiplied by the liquidation value of such shares.

All officers and one Director of the Fund are employees of Citigroup or its affiliates.

4. INVESTMENTS

During the three months ended August 31, 2002, the aggregate cost of purchases and proceeds from sales of investments (including maturities, but excluding short-term securities) were as follows:

Purchases	\$132,915,964
Sales	44,064,073

[GRAPHIC]

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[GRAPHIC]

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

At August 31, 2002, aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

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Gross unrealized appreciation	\$ 40,931,641
Gross unrealized depreciation	(12,686,923)

Net unrealized appreciation	\$ 28,244,718

5. FUTURES CONTRACTS

Initial margin deposits made upon entering into futures contracts are recognized as assets. Securities equal to the initial margin amount are segregated by the custodian in the name of the broker. Additional securities are also segregated up to the current market value of the futures contracts. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by "marking-to-market" on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are received or made and recognized as assets due from or liabilities due to broker, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contract.

The Fund enters into such contracts to hedge a portion of its portfolio. The Fund bears the market risk that arises from changes in the value of the financial instruments and securities indices (futures contracts).

At August 31, 2002, the Fund had the following open futures contracts:

	# of Contracts	Expiration	Basis Value	Market Value	Unrealized Loss

To					
Sell:					
U.S.					
Treasury					
Bond	700	9/02	\$75,003,438	\$77,612,500	\$(2,609,062)

6. SECURITIES TRADED ON A WHEN-ISSUED BASIS

In a when-issued transaction, the Fund commits to purchasing securities for which specific information is not yet known at the time of the trade. Securities purchased on a when-issued basis are not settled until they are delivered to the Fund. Beginning on the date the Fund enters into the when-issued transaction, the custodian maintains cash, U.S. government securities or other liquid high grade debt obligations in a segregated account equal in value to the purchase price of the when-issued security. These transactions are subject to market fluctuations and their current value is determined in the same manner as for other securities.

[GRAPHIC]

[GRAPHIC]

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At August 31, 2002, the Fund did not hold any when-issued securities.

7. AUCTION RATE CUMULATIVE PREFERRED STOCK

On May 22, 2002, the Fund issued 2,000 shares of Series M, Series T, Series W, Series Th and Series F, respectively, of Auction Rate Cumulative Preferred Stock ("ARCPS"). The underwriting discount of \$2,500,000 and offering expenses of \$293,000 associated with the ARCPS offering were recorded as a reduction of the capital paid in excess of par value of common stock. The ARCPS' dividends are cumulative at a rate determined at an auction and the dividend period is typically 7 days. The dividend rates ranged from 1.10%-1.55% for the three months ended August 31, 2002.

The ARCPS are redeemable under certain conditions by the Fund, or subject to mandatory redemption (if the Fund is in default of certain coverage requirements) at a redemption price equal to \$25,000 per share plus accumulated and unpaid dividends. ARCPS have a liquidation preference of \$25,000 per share plus accumulated and unpaid dividends. The Fund is required to maintain certain asset coverages with respect to the ARCPS under the Investment Company Act of 1940.

Salomon Smith Barney Inc. ("SSB"), another subsidiary of Citigroup also currently acts as a broker/dealer in connection with the auction of ARCPS. After each auction, the auction agent will pay to each broker/dealer, from monies the Fund provides a participation fee at the annual rate of 0.25% of the purchase price of the ARCPS that the broker/dealer places at the auction. For the three months ended August 31, 2002, SSB earned \$155,828 as the broker/dealer.

Under Emerging Issues Task Force ("EITF") announcement Topic D-98, Classification and Measurement of Redeemable Securities, which was issued on July 19, 2001, preferred securities that are redeemable for cash or other assets are to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

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[GRAPHIC]

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[GRAPHIC]

NOTES TO FINANCIAL STATEMENTS
(unaudited) (continued)

8. TRANSFER OF NET ASSETS

On April 26, 2002, the Fund acquired the assets and certain liabilities of Managed Municipals Portfolio II Inc. pursuant to a plan of reorganization approved by Managed Municipals Portfolio II Inc. shareholders on April 10, 2002. Total shares issued by the Fund and the total net assets of the Managed Municipals Portfolio II Inc. and the Fund on the date of the transfer were as follows:

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Acquired Fund	Shares Issued by the Fund	Total Net Assets of Managed Municipals Portfolio II Inc.	Total Net Assets of the Fund
Managed Municipals Portfolio II Inc.	10,006,932	\$117,162,040	\$372,831,933

The total net assets of Managed Municipals Portfolio II Inc. before acquisition included unrealized depreciation of \$2,101,130, accumulated net realized loss of \$5,251,582, and overdistributed net investment income of \$14,313. Total net assets of the Fund immediately after the transfer were \$489,993,973. The transaction was structured to qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended.

9. CAPITAL LOSS CARRYFORWARD

At May 31, 2002, the Fund had, for Federal income tax purposes, approximately \$18,142,000 of unused capital loss carryforwards available to offset future capital gains. To the extent that these carryforward losses are used to offset capital gains, it is probable that the gains so offset will not be distributed. Expirations occur on May 31 of the years below:

	2006	2007	2008
Carryforward Amounts	\$302,000	\$4,855,000	\$12,985,000

10. CAPITAL SHARES

At August 31, 2002, the Fund had 500,000,000 shares of common stock authorized with a par value of \$0.001 per share.

[GRAPHIC]

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[GRAPHIC]

FINANCIAL HIGHLIGHTS

For a share of capital stock outstanding throughout each year ended May 31, unless otherwise noted:

	2002/(1)/	2002	2001	2000	1999	1998
Net Asset Value, Beginning of Period	\$11.69	\$11.74	\$10.93	\$11.97	\$12.37	\$11.90
Income (Loss) From Operations:						
Net investment income/(2)(3)/	0.19	0.60	0.60	0.58	0.58	0.54
Net realized and unrealized gain (loss)/(3)/	0.38	0.02	0.79	(1.14)	(0.32)	0.83

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Distributions Paid to Auction Rate Cumulative Preferred Stockholders from net investment income	(0.02)	(0.00)*	--	--	--	--
Total Income (Loss) From Operations	0.55	0.62	1.39	(0.56)	0.26	1.37
Gain From Repurchase of Treasury Stock	--	--	0.02	0.12	--	--
Underwriting Commission and Expenses of Issuance of Auction Rate Cumulative Preferred Stock	--	(0.07)	--	--	--	--
Distributions Paid To:						
Common Stock Shareholders from net investment income	(0.16)	(0.60)	(0.60)	(0.60)	(0.54)	(0.61)
Common Stock Shareholders from net realized gains	--	--	--	--	(0.12)	(0.29)
Total Distributions	(0.16)	(0.60)	(0.60)	(0.60)	(0.66)	(0.90)
Net Asset Value, End of Period	\$12.08	\$11.69	\$11.74	\$10.93	\$11.97	\$12.37
Total Return, Based on Market Value/(4)/	4.98%++	4.79%	20.69%	(3.88)%	0.11%	2.08%
Total Return, Based on Net Asset Value/(4)/	4.82%++	5.33%	13.90%	(2.82)%	2.66%	12.14%
Net Assets, End of Period (millions)	\$505	\$489	\$374	\$352	\$414	\$428

[GRAPHIC]

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[GRAPHIC]

FINANCIAL HIGHLIGHTS
(continued)

For a share of capital stock outstanding throughout each year ended May 31,
unless otherwise noted:

	2002/(1)/	2002	2001	2000	1999	1998
Ratios to Average Net Assets Based on Common Shares Outstanding/(5)/:						
Net investment income/(3)/	6.24%+	4.84%	5.15%	5.19%	4.72%	4.35%

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Auction fees	0.00**	0.00*	--	--	--	--
Operating expenses/(2)/	1.51+	0.52	0.68	0.89	0.94	0.99
Total expenses	1.51+	0.52	0.68	0.89	0.94	0.99

Portfolio Turnover Rate	6%	39%	58%	35%	23%	87%

Market Price, End of Period	\$10.94	\$10.57	\$10.67	\$9.375	\$10.375	\$11.00

- (1) For the three months ended August 31, 2002 (unaudited).
 (2) The investment adviser waived a portion of its fees for the years ended May 31, 2002, 2001 and 2000. In addition, the investment adviser and administrator waived a portion of their fees for the year ended May 31, 1999. If such fees were not waived, the per share decreases in net investment income and actual expense ratios would have been as follows:

Per share decreases in net investment income Expense ratios without fee waivers

2002	\$0.05	1.01%
2001	0.04	1.01
2000	0.02	1.04
1999	0.01	1.02

- (3) Without the adoption of the change in the accounting method discussed in Note 1 to the financial statements, for the three months ended August 31, 2002, the annualized ratio of net investment income to average net assets would have been 6.25%. Per share, ratios and supplemental data for the periods prior to June 1, 2001 have not been restated to reflect this change in presentation. In addition, the impact of this change to net investment income and net realized and unrealized gain per share was less than \$0.01.
 (4) The total return calculation assumes that dividends are reinvested in accordance with the Fund's dividend reinvestment plan.
 (5) Calculated on basis of average net assets of common shareholders. Ratios do not reflect the effect of dividend payments to preferred shareholders.
 * Amount represents less than \$0.01 per share.
 ++ Total return is not annualized, as it may not be representative of the total return for the year.
 + Annualized.

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 [GRAPHIC]

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[GRAPHIC]

FINANCIAL DATA
 (unaudited)

For a share of capital stock outstanding throughout each period:

Record Date	Payable Date	NYSE Closing Price+	Net Asset Value+	Dividend Paid	Dividend Reinvestment Price

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6/27/00	6/30/00	\$ 9.750	\$11.20	\$0.050	\$ 9.91
7/25/00	7/28/00	9.688	11.37	0.050	9.89
8/22/00	8/25/00	10.000	11.54	0.050	10.04
9/26/00	9/29/00	9.688	11.42	0.050	9.80
10/24/00	10/27/00	9.688	11.49	0.050	9.78
11/20/00	11/24/00	9.750	11.47	0.050	9.80
12/26/00	12/29/00	9.938	11.85	0.050	10.25
1/23/01	1/26/01	10.688	11.92	0.050	10.70
2/20/01	2/23/01	10.770	11.88	0.050	10.81
3/27/01	3/30/01	10.450	11.89	0.050	10.58
4/24/01	4/27/01	10.370	11.65	0.050	10.55
5/22/01	5/25/01	10.650	11.71	0.050	10.69
6/26/01	6/29/01	10.400	11.80	0.050	10.61
7/24/01	7/27/01	10.590	11.88	0.050	10.71
8/28/01	8/31/01	10.830	12.09	0.050	11.00
9/25/01	9/28/01	10.330	11.87	0.050	10.65
10/23/01	10/26/01	10.640	11.93	0.050	10.82
11/27/01	11/30/01	10.580	11.83	0.050	10.51
12/24/01	12/28/01	10.310	11.63	0.050	10.43
1/22/02	1/25/02	10.600	11.81	0.050	10.74
2/19/02	2/22/02	10.600	11.77	0.050	10.72
3/25/02	3/28/02	10.250	11.55	0.050	10.43
4/23/02	4/26/02	10.300	11.66	0.050	10.51
5/28/02	5/31/02	10.500	11.65	0.050	10.62
6/25/02	6/28/02	10.490	11.76	0.050	10.67
7/23/02	7/26/02	10.740	12.02	0.050	10.80
8/27/02	8/30/02	10.890	12.02	0.055	11.09

+ As of record date.

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[GRAPHIC]

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[GRAPHIC]

OTHER FINANCIAL INFORMATION
(unaudited)

The table below sets out information with respect to Auction Rate Cumulative Preferred Stock:

	2002/(1)/

Auction Rate Cumulative Preferred Stock/(2)/:	
Total Amount Outstanding (000s)	250,000
Asset Coverage Per Share	75,500
Involuntary Liquidating Preference Per Share	25,000
Average Market Value Per Share/(3)/	25,000

(1)As of August 31, 2002.

(2)On May 22, 2002, the Fund issued 2,000 shares of Auction Rate Cumulative Preferred Stock at \$25,000 a share, for Series M, Series T, Series W, Series

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Th and Series F, respectively.

(3)Excludes accrued interest or accumulated undeclared dividends.

[GRAPHIC]

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[GRAPHIC]

DIVIDEND REINVESTMENT PLAN
(unaudited)

Under the Fund's Dividend Reinvestment Plan ("Plan"), a shareholder whose shares of common stock are registered in his own name will have all distributions from the Fund reinvested automatically by PFPC Global Fund Services ("PFPC"), as purchasing agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own common stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of PFPC as dividend paying agent.

The number of shares of common stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. When the market price of the common stock is equal to or exceeds 98% of the net asset value per share of the common stock on the determination date (generally, the record date for the distribution), Plan participants will be issued shares of common stock by the Fund at a price equal to the greater of net asset value determined as described below under "Net Asset Value" or 95% of the market price of the common stock.

If the market price of the common stock is less than 98% of the net asset value of the common stock at the time of valuation (which is the close of business on the determination date), PFPC will buy common stock in the open market, on the NYSE or elsewhere, for the participants' accounts. If following the commencement of the purchases and before PFPC has completed its purchases, the market price exceeds the net asset value of the common stock as of the valuation time, PFPC will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution in shares at a price equal to the greater of (a) net asset value as of the valuation time or (b) 95% of the then current market price. In this case, the number of shares received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent PFPC is unable to stop open market purchases and cause the Fund to issue the remaining shares, the average per share purchase price paid by PFPC may exceed the net asset value of the common stock as of the valuation time, resulting in the acquisition of fewer shares than if the dividend or capital gains distribution had been paid in common stock issued by the Fund at such net

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[GRAPHIC]

DIVIDEND REINVESTMENT PLAN
(unaudited) (continued)

asset value. PFPC will begin to purchase common stock on the open market as soon as practicable after the determination date for the dividend or capital gains distribution, but in no event shall such purchases continue later than 30 days after the payment date for such dividend or distribution, or the record date for a succeeding dividend or distribution, except when necessary to comply with applicable provisions of the federal securities laws.

PFPC maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common stock in the account of each Plan participant will be held by PFPC in uncertificated form in the name of the Plan participant.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions under the Plan. PFPC's fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges apply with respect to shares of common stock issued directly by the Fund under the Plan. Each Plan participant will, however, bear a proportionate share of any brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by PFPC, with the Fund's prior written consent, on at least 30 days' written notice to Plan participants. All correspondence concerning the plan should be directed by mail to PFPC Global Fund Services, P.O. Box 8030, Boston, Massachusetts 02266-8030 or by telephone at (800) 331-1710.

[GRAPHIC]

SHARE REPURCHASE NOTICE
(unaudited)

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase shares of its common stock in the open market.

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[GRAPHIC]

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DIRECTORS

Allan J. Bloostein
Dwight B. Crane
Paolo M. Cucchi
Robert A. Frankel
R. Jay Gerken, Chairman
Paul Hardin
William R. Hutchinson
George M. Pavia

OFFICERS

R. Jay Gerken
President and
Chief Executive Officer

Lewis E. Daidone
Senior Vice President and Chief Administrative Officer

Richard L. Peteka
Chief Financial Officer and Treasurer

Joseph P. Deane
Vice President and Investment Officer

David Fare
Investment Officer

Kaprel Ozsolak
Controller

Christina T. Sydor
Secretary

INVESTMENT ADVISER AND ADMINISTRATOR

Smith Barney Fund Management LLC
333 W. 34th Street
New York, New York 10001

TRANSFER AGENT

PFPC Global Fund Services
P.O. Box 8030
Boston, Massachusetts 02266-8030

CUSTODIAN

State Street Bank and Trust Company
225 Franklin Street
Boston, Massachusetts 02110

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IT IS NOT A PROSPECTUS,
CIRCULAR OR REPRESENTATION INTENDED FOR USE IN THE
PURCHASE OR SALE OF SHARES OF THE FUND OR OF ANY
SECURITIES MENTIONED IN THE REPORT.

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