

WESTERN ASSET MANAGED MUNICIPALS FUND INC.

Form N-CSR

July 24, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-06629**

**Western Asset Managed Municipals 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: May 31**

**Date of reporting period: May 31, 2017**

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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Annual Report

May 31, 2017

WESTERN ASSET

MANAGED MUNICIPALS FUND INC. (MMU)

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

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## **Fund objective**

The Fund seeks to maximize current income exempt from federal income tax\* as is consistent with preservation of principal.

The Fund seeks to achieve its objective by investing primarily in long-term investment grade municipal debt securities issued by state and local governments, political subdivisions, agencies and public authorities (municipal obligations). Under normal market conditions, the Fund will invest at least 80% of its total assets in municipal obligations rated investment grade at the time of investment.

## **Letter from the chairman**

### **Dear Shareholder,**

We are pleased to provide the annual report of Western Asset Managed Municipals Fund Inc. for the twelve-month reporting period ended May 31, 2017. 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.

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

Fund prices and performance,

## Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

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

June 30, 2017

\* 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 Managed Municipals Fund Inc.

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## Investment commentary

### Economic review

The pace of U.S. economic activity fluctuated during the twelve months ended May 31, 2017 (the reporting period). Looking back, the U.S. Department of Commerce reported that second quarter 2016 U.S. gross domestic product (GDP) growth was 1.4%. GDP growth for the third quarter of 2016 was 3.5%, the strongest reading in two years. However, fourth quarter 2016 GDP growth then moderated to 2.1%. Finally, the U.S. Department of Commerce's final reading for first quarter 2017 GDP growth released after the reporting period ended was 1.4%. The deceleration in growth reflected downturns in private inventory investment and personal consumption expenditures, along with more modest state and local government spending.

Job growth in the U.S. was solid overall and a tailwind for the economy during the reporting period. When the reporting period ended on May 31, 2017, the unemployment rate was 4.3%, as reported by the U.S. Department of Labor. This was the lowest unemployment rate since May 2001. The percentage of longer-term unemployed also declined over the period. In May 2017, 24.0% of Americans looking for a job had been out of work for more than six months, versus 25.8% when the period began.

Looking back, after an extended period of maintaining the federal funds rate<sup>ii</sup> at a historically low range between zero and 0.25%, the Federal Reserve Board (the Fed<sup>ii</sup>) increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. The Fed then kept rates on hold at each meeting prior to its meeting in mid-December 2016. On December 14, 2016, the Fed raised rates to a range between 0.50% and 0.75%.

After holding rates steady at its meeting that concluded on February 1, 2017, the Fed raised rates to a range between 0.75% and 1.00% at its meeting that ended on March 15, 2017. Finally, at its meeting that concluded on June 14, 2017 after the reporting period ended the Fed raised rates to a range between 1.00% and 1.25%. The Fed also said that it planned to reduce its balance sheet, saying, "The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated."

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

June 30, 2017

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

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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 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.

iii The Federal Reserve Board (the 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.

IV Western Asset Managed Municipals Fund Inc.



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## Fund overview

### **Q. What is the Fund's investment strategy?**

**A.** The Fund seeks to maximize current income exempt from federal income tax as is consistent with preservation of principal. We select securities primarily by identifying undervalued sectors and individual securities, while also selecting securities that we believe will benefit from changes in market conditions.

Under normal market conditions, the Fund invests primarily in investment grade municipal bonds, but it can also invest up to 20% of its total assets in municipal bonds rated below investment grade by a nationally recognized statistical rating organization or, if unrated, determined to be of equivalent quality. The Fund may also use a variety of derivative instruments for investment purposes, as well as for hedging 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. Effective August 1, 2016, 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 and David T. Fare.

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

**A.** The overall fixed income market experienced periods of volatility and generated a modest gain over the twelve-month reporting period ended May 31, 2017. The spread sectors (non-Treasuries) generally rallied from June 2016 through September 2016, as concerns over global growth moderated, energy prices stabilized and the Federal Reserve Board's (the Fed) monetary policy remained accommodative. This rally occurred even as the market overcame several headwinds, including questions related to global monetary policy, implications of the U.K.'s referendum to leave the European Union (Brexit) and a number of geopolitical issues. U.S. Treasury yields then moved sharply higher and most segments of the fixed income market posted weak results from October 2016 through the end of December 2016 (yields and prices move in the opposite direction). This turnaround was triggered by expectations for improving economic growth and higher inflation due to potential fiscal stimulus from President Donald Trump's administration. In addition, for the first time in a year the Fed raised rates in December 2016. The U.S. central bank also indicated that it may institute more rate hikes in 2017 than it had previously projected. However, the spread sectors then regained their footing over the last five months of the period, as Treasury yields generally edged lower, even though the Fed again raised rates in March 2017.

Both short- and long-term Treasury yields moved higher during the reporting period as a whole. The yields for the two-year Treasury began the reporting period at 0.87% and

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## Fund overview (cont d)

ended the period at 1.28%. Their peak of 1.40% occurred on both March 13 and March 14, 2017, and they were as low as 0.56% on July 5, 2016. The yields for the ten-year Treasury were 1.84% at the beginning of the period and ended the period at 2.21%. Their peak of 2.62% was on March 13, 2017, and their low of 1.37% occurred on both July 5 and July 8, 2016.

The municipal bond market modestly underperformed its taxable bond counterpart during the twelve-month reporting period. Over that time, the Bloomberg Barclays Municipal Bond Index<sup>ii</sup> and the Bloomberg Barclays U.S. Aggregate Index<sup>iii</sup> returned 1.46% and 1.58%, respectively. After posting positive returns over the first three months of the reporting period, the municipal market declined from September through November 2016. This turnaround occurred as yields moved higher, municipal supply increased and investor demand weakened. The municipal market then generally rallied over the last six months of the period as long-term yields stabilized and then edged lower, supply moderated and investor demand improved.

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

A. A number of adjustments were made to the Fund during the reporting period. Our allocation to the Health Care sector declined during the reporting period, as several securities were pre-refunded<sup>iv</sup>. As a byproduct of this, the Fund's Pre-Refunded securities exposure increased during the period. The Fund's exposure to State General Obligation bonds increased as we identified several individual securities that we felt were attractively valued. Finally, post the U.S. presidential election, we modestly increased the Fund's duration. This adjustment was consistent with our view that relatively safe haven assets (U.S. Treasuries and municipals) were oversold and the prices of risky assets were vulnerable. In our view, the long end of the municipal market continues to be attractive relative to Treasuries.

We employed the use of U.S. Treasury futures during the reporting period to manage duration. This strategy contributed to the Fund's performance.

During the reporting period, we utilized leverage in the Fund. We generally maintained liabilities as a percentage of gross assets of approximately 29% during the period. The use of leverage was additive for results given the positive performance of the municipal bond market over the twelve months ended May 31, 2017.

### Performance review

For the twelve months ended May 31, 2017, Western Asset Managed Municipals Fund Inc. returned 1.16% based on its net asset value (NAV<sup>i</sup>) and -1.31% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays Municipal Bond Index, returned 1.46% for the same period. The Lipper General & Insured Municipal Debt (Leveraged) Closed-End Funds Category Average<sup>vii</sup> returned 0.93% 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.

\*For the tax character of distributions paid during the fiscal year ended May 31, 2017, please refer to page 36 of this report.

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During the twelve-month period, the Fund made distributions to shareholders totaling \$0.77 per share.\* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of May 31, 2017. **Past performance is no guarantee of future results.**

**Performance Snapshot as of May 31, 2017**

Price Per Share	12-Month Total Return
\$13.99 (NAV)	1.16%
\$13.84 (Market Price)	-1.31%

**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.**

**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 largest contributor to the Fund's relative performance during the reporting period was its duration positioning. We tactically adjusted the Fund's duration given the changing market environment.

Our positioning in a number of sectors was beneficial for performance. In particular, security selection within and overweights to the Industrial Revenue and Transportation sectors were additive for results, as was security selection in the Education sector. Elsewhere, our Pre-Refunded securities holdings were positive for performance.

The Fund's quality biases overall also contributed to results. Overweights to municipal securities rated A and BBB, along with underweights to municipal securities rated AAA and AA, were rewarded, as lower-rated, higher yielding securities generally outperformed their higher-rated counterparts over the reporting period.

**Q. What were the leading detractors from performance?**

**A.** The largest detractor from the Fund's relative performance during the reporting period was its security selection of debt issued by the U.S. Virgin Islands. In particular, the Fund was negatively impacted by having a small overweight position relative to the benchmark in the U.S. Virgin Islands' debt backed by U.S. rum sales. These bonds were downgraded due to the U.S. Virgin Islands' weak fiscal condition and structural budget imbalances. The ratings agencies also changed their methodology in rating U.S. territory debt to reflect the risks associated with a Puerto Rico Oversight, Management, and Economic Stability Act ( PROMESA ) type legislation. This change in methodology could provide a legal framework to restructure any territory debt in the event of insolvency. The governor of the U.S. Virgin Islands recently crafted a five-year plan and the senate enacted several tax increases and proposed spending cuts equal to 10% of its budget.

Elsewhere, security selection in the Leasing sectors and our State General Obligation bonds were headwinds for results during the reporting period. Finally, an overweight to municipal securities rated BB was a drag on performance.

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## Fund overview (cont d)

### Looking for additional information?

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

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 Managed Municipals 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

June 20, 2017

***RISKS:** The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Because the Fund is non-diversified, it may be more susceptible to economic, political or regulatory events than a diversified fund. The Fund's investments are subject to a number of risks such as interest rate risk, credit risk, leveraging risk and management risk. As interest rates rise, the price of fixed-income investments declines. Lower rated, higher-yielding bonds, known as high yield or junk bonds, are subject to greater liquidity and credit risk than higher-rated investment grade securities. 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 make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses and could have a potentially large impact on Fund performance. Investing in securities issued by other investment companies, including exchange-traded funds (ETFs) that invest primarily in municipal securities, involves risks similar to those of investing directly in the securities in which those investment companies invest. To the extent the Fund invests in securities of other investment companies, Fund stock holders will indirectly pay a portion of the operating costs of such companies, in addition to the expenses that the Fund bears directly in connection with its own operation. Leverage may result in greater volatility of NAV and market price of common shares and may increase a shareholder's risk of loss.*

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

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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.

<sup>i</sup> The Federal Reserve Board (the "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.

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

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

<sup>iv</sup> A pre-refunded bond is a bond in which the original security has been replaced by an escrow, usually consisting of treasuries or agencies, which has been structured to pay principal and interest and any call premium, either to a call date (in the case of a pre-refunded bond), or to maturity (in the case of an escrowed to maturity bond).

<sup>v</sup> 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.

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

<sup>vii</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended May 31, 2017, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 64 funds in the Fund's Lipper category.

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**Fund at a glance** (unaudited)

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

The bar graph above represents the composition of the Fund's investments as of May 31, 2017 and May 31, 2016 and does not include derivatives, such as futures contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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## Spread duration (unaudited)

Economic exposure May 31, 2017

**Total Spread Duration**

MMU 5.73  
Benchmark 5.96

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 portfolio and the exposure relative to the selected benchmark as of the end of the reporting period.

Benchmark Bloomberg Barclays Municipal Bond Index  
MMU Western Asset Managed Municipals Fund Inc.

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**Effective duration** (unaudited)

**Interest rate exposure** May 31, 2017

**Total Effective Duration**

MMU 6.00 years

Benchmark 6.10 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 Bloomberg Barclays Municipal Bond Index

MMU Western Asset Managed Municipals Fund Inc.

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May 31, 2017

**Western Asset Managed Municipals Fund Inc.**

	Rate	Maturity Date	Face Amount	Value
Security				
<b>Municipal Bonds 140.0%</b>				
<i>Alabama 6.1%</i>				
Jefferson County, AL, Sewer Revenue:				
AGM	5.500%	10/1/53	\$ 1,400,000	\$ 1,605,828
Convertible CAB, Subordinated Lien	0.000%	10/1/50	11,580,000	9,216,985 <sup>(a)</sup>
Subordinated Lien Warrants	6.000%	10/1/42	9,230,000	10,684,833
Subordinated Lien Warrants	6.500%	10/1/53	6,900,000	8,162,079
Lower Alabama Gas District, Gas Project Revenue	5.000%	9/1/46	6,000,000	7,448,160
<i>Total Alabama</i>				<i>37,117,885</i>
<i>Arizona 4.6%</i>				
Navajo Nation, AZ, Revenue	5.500%	12/1/30	950,000	1,049,550 <sup>(b)</sup>
Phoenix, AZ, Civic Improvement Corp. Airport Revenue	5.000%	7/1/40	5,000,000	5,507,600
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.250%	12/1/28	2,000,000	2,423,740
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.000%	12/1/32	10,000,000	11,967,800
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.000%	12/1/37	5,500,000	6,645,045
<i>Total Arizona</i>				<i>27,593,735</i>
<i>California 21.5%</i>				
Alameda, CA, Corridor Transportation Authority Revenue, Second Subordinated Lien	5.000%	10/1/34	1,750,000	1,985,480
Anaheim, CA, Public Financing Authority Lease Revenue	5.000%	5/1/46	2,000,000	2,271,800
Bay Area Toll Authority, CA, Toll Bridge Revenue:				
San Francisco Bay Area	1.880%	4/1/24	5,500,000	5,678,750 <sup>(a)(c)</sup>
San Francisco Bay Area	5.125%	4/1/39	19,200,000	