

WESTERN ASSET MANAGED MUNICIPALS FUND INC.  
Form N-CSR  
August 08, 2008

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 811-6629

Western Asset Managed Municipals Fund Inc.  
(Exact name of registrant as specified in charter)

55 Water Street, New York, NY  
(Address of principal executive offices)

10041  
(Zip code)

Robert I. Frenkel, Esq.  
Legg Mason & Co., LLC  
300 First Stamford Place, 4th Fl.  
Stamford, CT 06902  
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year May 31,  
end:

Date of reporting period: May 31, 2008

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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, 2008**

**Western Asset**

**Managed Municipals**

**Fund Inc.**

**(MMU)**

Managed by **WESTERN ASSET**

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

**Fund objective**

The Fund objective is to seek as high a level of current income exempt from federal income tax as is consistent with preservation of principal.

**What's inside**

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**Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager and Western Asset Management Company ( Western Asset ) is the Fund's subadviser. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc.**

**Letter from the chairman**

Dear Shareholder,

The U.S. economy weakened significantly during the 12-month reporting period ended May 31, 2008. Second quarter 2007 U.S. gross domestic product ( GDP )<sup>i</sup> growth was 3.8% and third quarter 2007 GDP growth was 4.9%, its strongest showing in four years. However, continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices then took their toll on the economy. During the fourth quarter of 2007, GDP growth was 0.6%. The U.S. Commerce Department then reported that first quarter 2008 GDP growth was a modest 1.0%. While it was once debated whether or not the U.S. would fall into a recession, it is now looking more likely that the U.S. could experience a mild recession. Even areas of the economy that had once been fairly resilient have begun to falter, including the job market. The U.S. Department of Labor reported that payroll employment declined in each of the first five months of 2008 and the unemployment rate rose to 5.5% in May, its highest level since October 2004.

Ongoing issues related to the housing and subprime mortgage markets and an abrupt tightening in the credit markets prompted the Federal Reserve Board ( Fed )<sup>ii</sup> to take aggressive and, in some cases, unprecedented actions during the reporting period. At its meeting in September 2007, the Fed reduced the federal funds rate<sup>iii</sup> from 5.25% to 4.75%. This marked the first reduction in the federal funds rate since June 2003. The Fed again lowered rates on six more occasions through the end of the reporting period, bringing the federal funds rate to 2.00% as of May 31, 2008. In its statement accompanying the April rate cut, the Fed stated: Recent information indicates that economic activity remains weak. Household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.

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In addition to lowering short-term interest rates, the Fed took several actions to improve liquidity in the credit markets. In March 2008, the Fed established a new lending program allowing certain brokerage firms, known

Western Asset Managed Municipals Fund Inc. I

**Letter from the chairman *continued***

as primary dealers, to also borrow from its discount window. The Fed also increased the maximum term for discount window loans from 30 to 90 days. Then, in mid-March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase.

During the 12-month reporting period ended May 31, 2008, both short- and long-term Treasury yields experienced periods of volatility. This was due, in part, to mixed economic and inflation data, the fallout from the subprime mortgage market crisis and shifting expectations regarding the Fed's monetary policy. Within the bond market, investors were initially focused on the subprime segment of the mortgage-backed market. These concerns broadened, however, to include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This turmoil triggered several flights to quality, causing Treasury yields to move lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). Longer-term Treasury yields then moved higher at the end of the reporting period, as record high oil prices and rising food prices triggered inflationary concerns.

Overall, during the 12 months ended May 31, 2008, two-year Treasury yields fell from 4.92% to 2.66%. Over the same time frame, 10-year Treasury yields fell from 4.90% to 4.06%. Short-term yields fell sharply in concert with the Fed's rate cuts, while longer-term yields fell less dramatically due to inflationary concerns, resulting in a steepening of the U.S. yield curve.

The municipal bond market lagged its taxable bond counterparts over the 12 months ended May 31, 2008. Over that period, the Lehman Brothers Municipal Bond Index<sup>v</sup> and the Lehman Brothers U.S. Aggregate Index<sup>vi</sup> returned 3.87% and 6.89%, respectively. During the reporting period, the municipal market was adversely affected by increased investor risk aversion and fears that an economic recession would negatively impact municipalities, as they would generate less tax revenues. In addition, several large bond insurers experienced rating downgrades due to concerns that they no longer had enough capital to guarantee billions of dollars in debt due to the fallout from the subprime mortgage crisis. Furthermore, the forced selling of municipal securities by hedge funds caused tax-free bond yields to move sharply higher (and their prices lower) in early 2008.

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

**Information about your fund**

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you meet your financial goals.

Sincerely,

**R. Jay Gerken, CFA**

Chairman, President and Chief Executive Officer

June 27, 2008

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- iv The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- v The Lehman Brothers Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- vi The Lehman Brothers 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.



**Fund overview**

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

A. The Fund seeks as high a level of current income exempt from federal income tax as is consistent with the preservation of principal. The managers select securities primarily by identifying undervalued sectors and individual securities, while also selecting securities that they 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 by the Fund's subadviser, Western Asset Management Company (Western Asset). The Fund may also use a variety of derivative instruments for investment purposes, as well as for hedging or risk-management purposes.

Western Asset utilizes 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 managers, 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.

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

A. During the fiscal year, the U.S. bond market experienced periods of increased volatility. Changing perceptions regarding the economy, inflation and future Federal Reserve Board (Fed) monetary policy caused bond prices to fluctuate. Two- and 10-year Treasury yields began the reporting period at 4.92% and 4.90%, respectively. Treasury yields then moved sharply higher as incoming economic data improved and inflationary pressures increased. By mid-June 2007, two- and 10-year Treasuries were yielding 5.10% and 5.26%, respectively, and market sentiment was that the Fed's next move would be to raise interest rates.

However, after their June peaks, Treasury yields moved lower, as concerns regarding the subprime mortgage market and a severe credit crunch triggered a massive flight to quality. Investors were drawn to the relative safety of Treasuries, causing their yields to fall and their prices to rise. At the same time, increased investor risk aversion caused other segments of the bond market to falter. As conditions in the credit market worsened in August 2007, central banks around the world took action by injecting approximately \$500 billion of liquidity into the financial system. Additionally,

**Fund overview *continued***

the Fed began lowering the discount rate<sup>ii</sup> and the federal funds rate<sup>iii</sup> in August and September 2007, respectively. While this initially helped ease the credit crunch, continued subprime mortgage write-offs and weak economic data triggered additional flights to quality in November 2007 and the first quarter of 2008. As of May 31, 2008, two- and 10-year Treasury yields had fallen to 2.66% and 4.06%, respectively. While the Fed attempted to stimulate growth by cutting short-term interest rates from 5.25% to 2.00% over the course of the reporting period, by the end of May, it was generally assumed that the U.S. could be headed for a mild recession.

The municipal bond market underperformed the overall taxable bond market during the 12 months ended May 31, 2008. Over that period, the Lehman Brothers Municipal Bond Index<sup>iv</sup> and the Lehman Brothers U.S. Aggregate Index<sup>v</sup> returned 3.87% and 6.89%, respectively. The municipal market's relative underperformance was due to a variety of factors, including several flights to quality, downgrades to a number of monoline insurance companies and fears that an economic recession would adversely affect tax-free bonds.

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

A. The Fund entered the fiscal year positioned for a steeper yield curve<sup>vi</sup> and a widening of very tight credit spreads. The Fund had an average duration<sup>vii</sup> that was shorter than that of its peer group and benchmark, and we took advantage of opportunities in the late summer of 2007 and in the first quarter of 2008 to add some longer maturities and lower-rated issues to the portfolio in response to a steeper yield curve and wider credit spreads. We used available cash and reduced the portfolio's overweight to the Pre-refunded<sup>viii</sup> sector to fund these restructuring moves. Most of this was accomplished in the first quarter of 2008 as the crisis in the monoline insurance companies and massive de-leveraging caused municipal securities to trade at historically cheap ratios as compared to U.S. Treasury securities. These strategies were augmented by opportunistic adjustments to the Fund's duration during periods of market uncertainty, which helped to manage interest rate risk.

**Performance review**

For the 12 months ended May 31, 2008, Western Asset Managed Municipals Fund Inc. returned 5.30% based on its net asset value ( NAV )<sup>ix</sup> and 4.57% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmark, the Lehman Brothers Municipal Bond Index, returned 3.87% for the same period. The Lipper General Municipal Debt (Leveraged) Closed-End Funds Category Average<sup>x</sup> returned -1.78% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the Fund made distributions to shareholders totaling \$0.54 per share. The performance table shows the Fund's 12-month total return based on its NAV and market price as of May 31, 2008. **Past performance is no guarantee of future results.**

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.

**PERFORMANCE SNAPSHOT as of May 31, 2008 (unaudited)**

PRICE PER SHARE	12-MONTH TOTAL RETURN*
\$12.07 (NAV)	5.30%
\$11.13 (Market Price)	4.57%

**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. Total returns assume 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. Relative to its benchmark, the Fund's large overweight to the overall high quality Pre-refunded sector was beneficial to its performance. The Fund's duration was shorter than that of its peer group and benchmark, with positions in the 2-6 year maturity range. This enhanced results as this maturity range was the best performing area during the first three quarters of the fiscal year. Opportunistic additions of some lower-rated Health Care<sup>1</sup> sector issues and longer-duration issues after the yield curve steepened and credit spreads widened contributed to performance, as these areas of the market were the best performers during the last quarter of the fiscal year. The Fund also benefited as we proactively managed its duration through the use of Treasury futures during periods of market uncertainty.

- 1 Health Care consists of the following industries: Hospitals/Nursing Facilities, Pharmacy Services, Medical Wholesale Drug Distributors, Drug Delivery Systems, Medical Products/Instruments, Medical & Laboratory Testing, Healthcare Cost Containment and Scientific Instruments.

**Fund overview *continued***

Relative to the Fund's benchmark, not having any exposure to the Airline or Tobacco sectors also contributed to the Fund's results, as these sectors were among the worst performing during the fiscal year.

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

A. Existing positions in lower-rated issues, especially those backed by the weaker bond insurance companies, detracted from performance during most of the reporting period. While the portfolio did have significant weighting to the short part of the yield curve, existing positions outside of this range hurt the Fund's performance during most of the fiscal year. The Fund's exposure to the Housing and Health Care sectors detracted from performance during the first three quarters of the reporting period as credit spreads widened significantly.

Finally, the Fund's positions in the front end of the yield curve underperformed somewhat in the last quarter of the fiscal year, as the curve flattened significantly from its steepest point, which occurred during the municipal market's sell-off in February 2008.

**Q. Were there any significant changes to the Fund during the reporting period?**

A. There were no significant changes to the Fund during the reporting period.

**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.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors).

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 6:00 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 17, 2008

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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.

**RISKS:** Fixed-income investments are subject to interest rate risk. As interest rates rise, the price of fixed-income investments declines. Lower-rated, higher-yielding bonds are subject to greater credit risk than higher-rated investment grade securities. Derivatives are subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leveraging risk, management risk, and may disproportionately increase losses and could have a potentially large impact on Fund performance.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ii The discount rate is the interest rate charged by the U.S. Federal Reserve Bank on short-term loans (usually overnight or weekend) to banks.
- iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- iv The Lehman Brothers Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- v The Lehman Brothers 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.
- vi The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- vii 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.
- viii 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).
- ix NAV is calculated by subtracting total liabilities and outstanding preferred stock (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 at the Fund's market price as determined by supply of and demand for the Fund's shares.
- x Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the 12-month period ended May 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 54 funds in the Fund's Lipper category.

**Fund at a glance (unaudited)**

**INVESTMENT BREAKDOWN (%)** As a percent of total investments    May 31, 2008





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## Schedule of investments

May 31, 2008

## WESTERN ASSET MANAGED MUNICIPALS FUND INC.

MUNICIPAL BONDS	FACE AMOUNT	SECURITY	VALUE
	98.1%		
\$	3,705,000	<b>Arizona 4.0%</b> Greater Arizona Development Authority, Development Authority Infrastructure Revenue, Pinal County Road Project, MBIA, 5.000% due 8/1/19	\$ 3,968,537
	4,000,000	Mesa, AZ, IDA, Revenue, Discovery Health Systems, MBIA, 5.625% due 1/1/29(a)	4,227,040
	3,000,000	Phoenix, AZ: Civic Improvement Corp. Airport Revenue, Senior Lien, FGIC, 5.250% due 7/1/22(b)	3,012,960
	1,000,000	GO, 5.000% due 7/1/27(a)	1,051,900
	10,000,000	Salt Verde, AZ Financial Corp., Gas Revenue: 5.000% due 12/1/32	8,987,800
	10,040,000	5.000% due 12/1/37	8,898,552
		<i>Total Arizona</i>	<i>30,146,789</i>
	2,555,000	<b>California 11.5%</b> California EFA Revenue, 5.625% due 7/1/23(a)	2,492,811
	6,000,000	California Health Facilities Finance Authority Revenue: Cedars-Sinai Medical Center, 6.250% due 12/1/34(a)	6,415,500
	1,000,000	Sutter Health, 6.250% due 8/15/35	1,058,580
		California Housing Finance Agency Revenue, Home Mortgage:	
	3,100,000	4.700% due 8/1/24(b)	2,931,825
	10,000,000	4.800% due 8/1/37(b)	9,001,500
	5,000,000	California State Department of Veterans Affairs, Home Purchase Revenue, AMBAC, 5.350% due 12/1/27	5,124,750
	9,500,000	California Statewide CDA Revenue, St. Joseph Health System, FGIC, 5.750% due 7/1/47	10,081,305
	7,375,000	Garden Grove, CA, Agency for Community Development, Tax Allocation, Refunding, AMBAC, 5.000% due 10/1/29	7,412,096
	6,000,000		