

WESTERN ASSET MUNICIPAL HIGH INCOME FUND INC.

Form N-CSR

December 28, 2018

**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 811-05497**

**Western Asset Municipal High Income 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: October 31**

**Date of reporting period: October 31, 2018**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

October 31, 2018

WESTERN ASSET

MUNICIPAL HIGH INCOME FUND INC. (MHF)

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

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## Fund objective

The Fund seeks high current income exempt from federal income taxes.

The Fund invests primarily in intermediate- and long-term municipal debt securities issued by state and local governments. However, the Fund may invest in municipal obligations of any maturity.

## Letter from the chairman

### Dear Shareholder,

We are pleased to provide the annual report of Western Asset Municipal High Income Fund Inc. for the twelve-month reporting period ended October 31, 2018. 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,

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

November 30, 2018

II Western Asset Municipal High Income Fund Inc.

## Investment commentary

### Economic review

Economic activity in the U.S. was mixed during the twelve months ended October 31, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that fourth quarter 2017 and first quarter 2018 U.S. gross domestic product (GDP) growth was 2.3% and 2.2%, respectively. GDP growth then accelerated to 4.2% during the second quarter of 2018—the strongest reading since the third quarter of 2014. Finally, the U.S. Department of Commerce's second reading for third quarter 2018 GDP growth—released after the reporting period ended—was 3.5%. The deceleration in GDP growth in the third quarter of 2018 reflected a downturn in exports and decelerations in nonresidential fixed investment and personal consumption expenditures. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. As reported by the U.S. Department of Labor, when the reporting period ended on October 31, 2018, the unemployment rate was 3.7%, versus 4.1% when the period began. October 2018's reading equaled the lowest unemployment rate since 1969. The percentage of longer-term unemployed also declined during the reporting period. In October 2018, 22.5% of Americans looking for a job had been out of work for more than six months, versus 23.8% when the period began.

Looking back, at its meeting that concluded on September 20, 2017, the Federal Reserve Board (the Fed) kept the federal funds rate<sup>iii</sup> on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program." At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As expected, the Fed kept rates on hold at its meeting that concluded on January 31, 2018. However, at its meeting that ended on March 21, 2018, the Fed again raised the federal funds rate, moving it to a range between 1.50% and 1.75%. At its meeting that concluded on June 13, 2018, the Fed raised the federal funds rate to a range between 1.75% and 2.00%. Finally, at its meeting that ended on September 26, 2018, the Fed raised the federal funds rate to a range between 2.00% and 2.25%.

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

November 30, 2018

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

## Investment commentary (cont d)

<sup>i</sup> Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.

<sup>ii</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>iii</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

IV Western Asset Municipal High Income Fund Inc.



## Fund overview

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

A. The Fund seeks high current income exempt from federal income taxes. The Fund invests primarily in intermediate- and long term municipal debt securities issued by state and local governments including U.S. territories and possessions, political sub-divisions, agencies and public authorities ( municipal obligations ). However, the Fund may invest in municipal obligations of any maturity. The Fund may invest up to 100% of its assets in municipal obligations rated below investment grade (commonly referred to as junk bonds ). Investment grade securities are those rated in the Baa/BBB categories or above by at least one National Recognized Statistical Rating Organization ( NRSRO ) that provides such a rating or unrated securities that we determined to be of comparable credit quality. The Fund may invest in non-publicly traded municipal securities, zero-coupon municipal obligations and non-appropriation or other municipal lease obligations. The Fund may hold securities or use investment techniques that provide for payments based or derived from the performance of an underlying asset, index or other economic benchmark.

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

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

A. Fixed income markets, generally, posted weak results over the twelve-month reporting period ended October 31, 2018. Spread sectors (non-Treasuries) experienced periods of elevated volatility as they were impacted by a number of factors, including the December 2017 signing of the U.S. tax reform bill, solid economic growth in the U.S., four interest rate hikes by the Federal Reserve Board (the Fed), concerns over a global trade war and geopolitical issues.

Both short- and long-term Treasury yields moved sharply higher during the reporting period. The yield for the two-year Treasury note began the reporting period at 1.60% its low for the period and ended the period at 2.87%. The high of 2.92% occurred on October 19 and October 22, 2018. The yield for the ten-year Treasury began the reporting period at 2.38% and ended the period at 3.15%. The low for the period of 2.32% occurred on several occasions in November 2017, and the peak for the period of 3.23% took place on October 5, 2018.

The municipal bond market outperformed its taxable bond counterpart during the 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 -0.51% and -2.05%, respectively. Both the taxable and tax-free bond markets were negatively impacted by rising interest

## Fund overview (cont d)

rates. However, the tax-free market held up relatively better as fundamentals were solid overall and new supply moderated over the reporting period.

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

A. There were several adjustments made to the Fund during the reporting period. We modestly increased the Fund's allocation to State General Obligation Bonds. In contrast, we reduced the Fund's exposures to Pre-Refunded Securities, as well as the allocations to the Health Care and Education sectors. Elsewhere, we tactically adjusted the Fund's duration. At the beginning of the reporting period, the Fund's duration was longer than that of the Bloomberg Barclays Municipal Bond Index, the Fund's benchmark. We trimmed this position during the period and ended with a duration that was shorter than the benchmark. While we still have a bias for the yield curve<sup>v</sup> to flatten, we felt it was prudent to shorten the Fund's duration as a tactical position in the event that rates continue to move higher.

The Fund employed the use of U.S. Treasury futures during the reporting period to tactically manage duration. This strategy modestly contributed to performance.

### Performance review

For the twelve months ended October 31, 2018, Western Asset Municipal High Income Fund Inc. returned 0.45% based on its net asset value (NAV<sup>vi</sup>) and -3.76% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays Municipal Bond Index, returned -0.51% for the same period. The Lipper High Yield Municipal Debt Closed-End Funds Category Average<sup>vii</sup> returned 0.65% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.31 per share.\* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of October 31, 2018. **Past performance is no guarantee of future results.**

#### Performance Snapshot as of October 31, 2018

Price Per Share	12-Month Total Return**
\$7.66 (NAV)	0.45%
\$6.91 (Market Price)	-3.76%

**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.**

\* For the tax character of distributions paid during the fiscal year ended October 31, 2018, please refer to page 29 of this report.

**Q. What were the leading contributors to performance?**

**A.** The largest contributor to the Fund's relative performance during the reporting period was its quality biases. Having an overweight to municipal securities rated BBB, as well as an out-of-benchmark allocation to securities rated below BBB, benefited performance. This was additive for results as lower rated municipal bonds outperformed their higher rated counterparts over the reporting period.

Our positioning in a number of sectors contributed to results during the reporting period. We continued to favor Revenue bonds as we found them to be attractively valued. In contrast, we maintained an underweight to State and Local General Obligation debt, as we continue to be wary about the overall health of state and local budgets. Adding the most value within the Revenue space was security selection in the Special Tax Obligation, Water & Sewer and Industrial Revenue sectors. Security selection of Local General Obligations Bonds also benefited performance. Elsewhere, an underweight to State General Obligation Bonds and an overweight to the Health Care sector contributed to performance.

Finally, our yield curve positioning was rewarded, as we were correctly positioned for a flattening of the yield curve.

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

**A.** The Fund outperformed its benchmark during the reporting period. The largest detractor from the Fund's relative performance was its holdings in a few bonds that experienced idiosyncratic issues. The Fund's return could have also been bolstered if it had a larger out-of-benchmark allocation to low-rated tobacco securities, as they generated strong results.

**Looking for additional information?**

The Fund is traded under the symbol **MHF** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XMHF** 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 Municipal High Income 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, LLC

November 20, 2018

***RISKS:** The Fund is a 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*

## Fund overview (cont d)

*than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Diversification does not assure against market loss. The Fund's investments are subject to a number of risks, such as credit risk, inflation risk and interest rate risk. High-yield bonds, known as junk bonds, involve greater credit and liquidity risks than investment grade bonds. As interest rates rise, bond prices fall, reducing the value of the Fund's holdings. 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 invest in securities of other investment companies. To the extent it does, Fund stockholders 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. 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. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

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

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

- i 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.
- ii The Bloomberg Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- iii 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.
- iv 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.
- v The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- vi 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.
- vii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended October 31, 2018, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 11 funds in the Fund's Lipper category.

## 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 October 31, 2018 and October 31, 2017 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.

## Spread duration (unaudited)

Economic exposure October 31, 2018

### Total Spread Duration

MHF 6.03 years

Benchmark 6.29 years

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark Bloomberg Barclays Municipal Bond Index  
MHF Western Asset Municipal High Income Fund Inc.

## Effective duration (unaudited)

Interest rate exposure October 31, 2018

### Total Effective Duration

MHF 6.11 years

Benchmark 6.42 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

MHF Western Asset Municipal High Income Fund Inc.



## Schedule of investments

October 31, 2018

### Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Municipal Bonds 97.7%</b>				
<i>Alabama 5.8%</i>				
County of Jefferson, AL, Sewer Revenue:				
Convertible CAB, Subordinated Lien (Step bond, 0.000% until 10/1/23; 7.900%)	0.000%	10/1/50	\$ 3,020,000	\$ 2,567,846
Senior Lien Warrants, Series A, AGM	5.500%	10/1/53	400,000	435,912
Subordinated Lien Warrants, Series D	6.000%	10/1/42	1,120,000	1,266,171
Subordinated Lien Warrants, Series D	6.500%	10/1/53	3,000,000	3,477,090
Lower Alabama Gas District, Series A Gas Project Revenue	5.000%	9/1/46	1,700,000	1,909,831
<i>Total Alabama</i>				<i>9,656,850</i>
<i>Arizona 3.5%</i>				
Industrial Development Authority of the City of Phoenix, AZ:				
Refunding, Basis School Inc.	5.000%	7/1/35	1,000,000	1,010,090 <sup>(a)</sup>
Refunding, Great Hearts Academies	5.000%	7/1/41	1,200,000	1,244,628
La Paz County, AZ, Industrial Development Authority, Charter School Solutions, Harmony Public School Project	5.000%	2/15/36	1,000,000	1,042,050 <sup>(a)</sup>
Navajo Nation, AZ, Refunding, Series A	5.500%	12/1/30	190,000	209,137 <sup>(a)</sup>
Salt Verde Financial Corp., AZ, Natural Gas Revenue	5.000%	12/1/37	1,500,000	1,705,305
University Medical Center Corp., AZ, Hospital Revenue	6.250%	7/1/29	500,000	513,860 <sup>(b)</sup>
<i>Total Arizona</i>				<i>5,725,070</i>
<i>California 10.9%</i>				
Alameda Corridor Transportation Authority, Refunding, Second Subordinated Lien, Series B	5.000%	10/1/34	500,000	544,585
Anaheim, CA, Public Financing Authority, Refunding, Series A	5.000%	5/1/46	2,000,000	2,185,420
California Municipal Finance Authority, Senior Lien, Linux Apartment Project	5.000%	12/31/43	500,000	535,160 <sup>(c)</sup>
California Pollution Control Financing Authority, Water Revenue	5.000%	11/21/45	2,960,000	2,995,105 <sup>(a)</sup>
California State Public Works Board, Various Capital Project, Series A	5.125%	10/1/31	1,500,000	1,617,855
California Statewide Communities Development Authority:				
Provident Group-Pomona Properties LLC	5.600%	1/15/36	500,000	525,500 <sup>(a)</sup>
Provident Group-Pomona Properties LLC	5.750%	1/15/45	360,000	377,975 <sup>(a)</sup>
Golden State Tobacco Securitization Corp.:				
Refunding, Series A-1	5.000%	6/1/47	300,000	293,424
Refunding, Series A-2	5.000%	6/1/47	400,000	391,232
Inland Valley, CA, Development Agency, Refunding, Series A	5.000%	9/1/44	500,000	533,905
Morongo Band of Mission Indians, Tribal Economic Development, Series A	5.000%	10/1/42	100,000	101,717 <sup>(a)</sup>

See Notes to Financial Statements.

## Schedule of investments (cont d)

October 31, 2018

## Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>California continued</i>				
M-S-R Energy Authority, CA, Gas Revenue:				
Series B	6.500%	11/1/39	\$ 1,000,000	\$ 1,339,130
Series C	7.000%	11/1/34	2,000,000	2,735,640
Series C	6.500%	11/1/39	2,000,000	2,678,260
Redding, CA, Redevelopment Agency, Shastec Redevelopment Project	5.000%	9/1/29	600,000	601,296
River Islands, CA, Public Financing Authority, Community Facilities District No. 2003-1	5.500%	9/1/45	620,000	655,836
<i>Total California</i>				<i>18,112,040</i>
<i>Colorado 3.7%</i>				
Aristation Metropolitan District, CO, Refunding And Improvement Limited Tax Convertible				
	5.000%	12/1/38	500,000	501,630
Colorado High Performance Transportation Enterprise Revenue, C-470 Express Lanes	5.000%	12/31/51	150,000	158,367
North Range, CO, Metropolitan District #2, Refunding, Series A	5.625%	12/1/37	500,000	491,085
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	4,000,000	4,526,240
Solaris Metropolitan District #3, Subordinated, Series B	7.000%	12/15/46	500,000	477,600
<i>Total Colorado</i>				<i>6,154,922</i>
<i>Connecticut 0.3%</i>				
State of Connecticut Special Tax Revenue, Transportation Infrastructure	5.000%	1/1/37	500,000	540,410
<i>Delaware 1.3%</i>				
Delaware State Economic Development Authority, Indian River Power LLC	5.375%	10/1/45	2,000,000	2,075,920
<i>District of Columbia 1.6%</i>				
District of Columbia:				
Friendship Public Charter School Inc.	5.000%	6/1/42	2,000,000	2,059,360
Ingleside Rock Creek Project, Series A	4.125%	7/1/27	100,000	98,740
KIPP Charter School	6.000%	7/1/33	200,000	231,966 <sup>(b)</sup>
KIPP Charter School	6.000%	7/1/43	250,000	289,957 <sup>(b)</sup>
<i>Total District of Columbia</i>				<i>2,680,023</i>
<i>Florida 2.3%</i>				
Florida Development Finance Corp.:				
Renaissance Charter School Inc. Project	6.000%	6/15/35	250,000	258,245 <sup>(a)</sup>
Renaissance Charter School Inc. Project	6.125%	6/15/46	215,000	218,898 <sup>(a)</sup>
Martin County, FL, Industrial Development Authority, Refunding, Indiantown Cogeneration Project	4.200%	12/15/25	1,500,000	1,521,315 <sup>(a)</sup>
Mid-Bay Bridge Authority, Refunding, Series A	5.000%	10/1/28	500,000	552,150

See Notes to Financial Statements.

Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Florida continued</i>				
Palm Beach County, FL, Health Facilities Authority, Sinai Residences Boca Raton Project	7.500%	6/1/49	\$ 400,000	\$ 451,904
Reunion, FL, East Community Development District:				
Series 1	6.600%	5/1/33	295,000	298,720
Series A-2	7.375%	5/1/33	285,000	3 <sup>*(d)</sup>
Santa Rosa, FL, Bay Bridge Authority, Highway Revenue Tolls	6.250%	7/1/28	742,353	549,341 <sup>*(d)</sup>
<i>Total Florida</i>				<i>3,850,576</i>
<i>Georgia 1.9%</i>				
City of Atlanta, GA, Water & Wastewater Revenue, Series A	6.250%	11/1/39	2,000,000	2,084,720 <sup>(b)</sup>
DeKalb Newton & Gwinnett Counties, GA, Joint Development Authority, GGC Foundation LLC Project	6.125%	7/1/40	1,000,000	1,027,240 <sup>(b)</sup>
<i>Total Georgia</i>				<i>3,111,960</i>
<i>Hawaii 1.2%</i>				
State of Hawaii Department of Budget & Finance, Hawaiian Electric Co. Subsidiary	6.500%	7/1/39	2,000,000	2,053,340
<i>Illinois 8.5%</i>				
Chicago, IL, Motor Fuel Tax Revenue, Refunding, AGM	5.000%	1/1/32	1,000,000	1,049,990
Chicago, IL, O Hare International Airport Revenue:				
Refunding, Series A	5.000%	1/1/31	1,500,000	1,628,910 <sup>(c)</sup>
Senior Lien, Series G	5.000%	1/1/42	500,000	530,570 <sup>(c)</sup>
Chicago, IL, Transit Authority, Second Lien	5.000%	12/1/51	1,000,000	1,037,640
Chicago, IL, Wastewater Transmission Revenue, Second Lien, Refunding, Series B	5.000%	1/1/38	500,000	527,730
Chicago, IL, Waterworks Revenue:				
Refunding, Second Lien	5.000%	11/1/29	500,000	546,160
Refunding, Second Lien, Series 2017-2, AGM	5.000%	11/1/32	1,260,000	1,377,319
City of Chicago, IL:				
Refunding, Series 2005D	5.500%	1/1/34	1,250,000	1,324,837
Refunding, Series A	6.000%	1/1/38	300,000	333,471
Refunding, Series C	5.000%	1/1/25	500,000	534,085
Illinois Finance Authority, Franciscan Communities Inc., Series A	5.250%	5/15/47	1,000,000	1,028,790
Illinois State University, Refunding, Auxiliary Facilities System, Series A, AGM	5.000%	4/1/28	100,000	111,007
Illinois State, GO:				
Refunding	5.000%	2/1/26	650,000	675,980
Refunding	5.000%	2/1/29	300,000	307,722
Refunding, Series A	5.000%	10/1/29	1,100,000	1,130,261
Series D	5.000%	11/1/26	1,200,000	1,248,096

See Notes to Financial Statements.

## Schedule of investments (cont d)

October 31, 2018

## Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Illinois continued</i>				
Metropolitan Pier & Exposition Authority:				
CAB, McCormick Place Expansion Project	0.000%	12/15/52	\$ 700,000	\$ 112,140
McCormick Place Expansion Project	5.000%	6/15/57	350,000	360,315
Refunding, McCormick Project	5.000%	6/15/50	155,000	155,135
<i>Total Illinois</i>				<i>14,020,158</i>
<i>Indiana 1.6%</i>				
City of Valparaiso, IN, Pratt Paper LLC Project	7.000%	1/1/44	500,000	574,600 <sup>(c)</sup>
Indiana Finance Authority, Private Activity Ohio River Bridges East End Crossing Project	5.000%	7/1/48	2,000,000	2,091,140
<i>Total Indiana</i>				<i>2,665,740</i>
<i>Kentucky 3.1%</i>				
County of Owen, KY, Kentucky American Water Co. Project, Series A	6.250%	6/1/39	2,000,000	2,048,300
Kentucky Public Energy Authority:				
Gas Supply, Series B	4.000%	1/1/25	1,500,000	1,576,890 <sup>(e)</sup>
Series A	4.000%	4/1/24	1,400,000	1,457,358 <sup>(e)</sup>
<i>Total Kentucky</i>				<i>5,082,548</i>
<i>Louisiana 0.4%</i>				
Louisiana PFA, Provident Group, Flagship Property	5.000%	7/1/42	700,000	744,464
<i>Maryland 1.9%</i>				
Maryland Health & Higher Educational Facilities Authority, Mercy Medical Center	6.250%	7/1/31	3,000,000	3,229,320
<i>Massachusetts 0.9%</i>				
Massachusetts Development Finance Agency:				
Prerefunded, Tufts Medical Center Inc., Series I	6.875%	1/1/41	600,000	658,800 <sup>(b)</sup>
Refunding, Newbridge Charles Inc.	5.000%	10/1/47	250,000	256,315 <sup>(a)</sup>
UMass Boston Student Housing Project	5.000%	10/1/41	200,000	208,346
Unrefunded, Tufts Medical Center Inc., Series I	6.875%	1/1/41	400,000	435,824
<i>Total Massachusetts</i>				<i>1,559,285</i>
<i>Michigan 1.6%</i>				
Great Lakes Water Authority Water Supply System Revenue, Refunding, Senior Lien, Series C	5.000%	7/1/35	200,000	221,848
Michigan Finance Authority:				
Refunding, Higher Education, Thomas M Cooley Law School Project	6.000%	7/1/24	310,000	313,832 <sup>(a)</sup>
Refunding, Higher Education, Thomas M Cooley Law School Project	6.750%	7/1/44	230,000	226,939 <sup>(a)</sup>
Refunding, Senior Lien, Great Lakes Water Authority	5.000%	7/1/33	260,000	279,729
Senior Lien, Great Lakes Water Authority	5.000%	7/1/44	270,000	285,611

See Notes to Financial Statements.

## Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Michigan continued</i>				
Michigan Strategic Fund:				
Refunding, Evangelical Homes of Michigan	5.250%	6/1/32	\$ 500,000	\$ 511,755
Refunding, Evangelical Homes of Michigan	5.500%	6/1/47	750,000	768,045
<i>Total Michigan</i>				<i>2,607,759</i>
<i>Missouri 2.2%</i>				
Kansas City, MO, Industrial Development Authority, Refunding, Kansas City United Methodist Retirement Home Inc.	6.000%	11/15/51	200,000	184,692 (a)
Missouri HEFA:				
Lutheran Senior Services	6.000%	2/1/41	500,000	527,090
Lutheran Senior Services	5.000%	2/1/44	750,000	777,945
St Louis County, MO, Industrial Development Authority, Friendship Village of Sunset Hills, Series A	5.875%	9/1/43	2,000,000	2,146,760
<i>Total Missouri</i>				<i>3,636,487</i>
<i>Nebraska 2.2%</i>				
Central Plains Energy Project, Project #3	5.000%	9/1/42	3,340,000	3,591,168
<i>Nevada 0.5%</i>				
State of Nevada Department of Business & Industry:				
Somerset Academy, Series A	5.000%	12/15/35	300,000	302,667 (a)
Somerset Academy, Series A	5.125%	12/15/45	500,000	502,785 (a)
<i>Total Nevada</i>				<i>805,452</i>
<i>New Jersey 6.2%</i>				
Gloucester County, NJ, Pollution Control Financing Authority, Refunding, Keystone Urban Renewal	5.000%	12/1/24	450,000	476,555 (c)
New Jersey Economic Development Authority:				
Private Activity-The Goethals Bridge Replacement Project	5.375%	1/1/43	1,500,000	1,606,845 (c)
Refunding, Port Newark Container Terminal LLC Project	5.000%	10/1/37	125,000	130,946 (c)
New Jersey Health Care Facilities Financing Authority, Refunding, Hackensack Meridian Health	5.000%	7/1/38	100,000	110,965
New Jersey Higher Education Student Assistance Authority, Series 1B	5.000%	12/1/44	640,000	659,936 (c)
New Jersey Transportation Trust Fund Authority, Transportation Program, Series AA	5.250%	6/15/32	4,720,000	5,065,598
Salem County, NJ, Pollution Control Financing Authority, Chambers Project, Series A	5.000%	12/1/23	2,000,000	2,106,100 (c)
Tobacco Settlement Financing Corp., Refunding, Series A	5.000%	6/1/46	150,000	155,189
<i>Total New Jersey</i>				<i>10,312,134</i>
<i>New York 2.7%</i>				
Brooklyn Arena, NY, Local Development Corp., Barclays Center Project	6.250%	7/15/40	2,000,000	2,102,160 (b)

See Notes to Financial Statements.

## Schedule of investments (cont d)

October 31, 2018

### Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>New York continued</i>				
New York Liberty Development Corp., Refunding, Class 1-3 World Trade Center LLC Project	5.000%	11/15/44	\$ 1,205,000	\$ 1,235,872 <sup>(a)</sup>
New York Transportation Development Corp.:				
Delta Airlines Inc., LaGuardia Airport Terminal C & D Redevelopment Project	5.000%	1/1/36	750,000	804,053 <sup>(c)</sup>
LaGuardia Airport Terminal B Redevelopment Project	5.000%	7/1/46	300,000	312,582 <sup>(c)</sup>
<i>Total New York</i>				<i>4,454,667</i>
<i>North Carolina 0.3%</i>				
North Carolina Turnpike Authority, Refunding, Series A	5.000%	7/1/47	500,000	531,340
<i>Ohio 0.4%</i>				
State of Ohio, Portsmouth Bypass Project	5.000%	6/30/53	700,000	732,620 <sup>(c)</sup>
<i>Oklahoma 1.0%</i>				
Payne County, OK, Economic Development Authority, Epworth Living at The Ranch	6.250%	11/1/31	215,000	96,750 <sup>*(d)</sup>
Tulsa County Industrial Authority:				
Montereau Inc. Project, Series A	7.125%	11/1/30	1,000,000	1,070,460 <sup>(b)</sup>
Refunding, Montereau Inc. Project	5.250%	11/15/37	500,000	541,385
<i>Total Oklahoma</i>				<i>1,708,595</i>
<i>Oregon 0.8%</i>				
Clackamas County Hospital Facility Authority, Refunding, Senior Living, Willamette View Project	5.000%	11/15/37	500,000	532,135
Yamhill County Hospital Authority, Refunding, Friendsview Retirement Community	5.000%	11/15/51	725,000	747,729
<i>Total Oregon</i>				<i>1,279,864</i>
<i>Pennsylvania 5.2%</i>				
Commonwealth Financing Authority, PA, , Tobacco Master Settlement Payment Bonds	5.000%	6/1/33	200,000	220,128
Cumberland County, PA, Municipal Authority, Refunding, Diakon Lutheran Social Ministries Project	5.000%	1/1/28	350,000	378,865
Erie County Convention Center Authority, Refunding, County GTD	5.000%	1/15/36	750,000	818,752
Montgomery County Industrial Development Authority:				
Acts Retirement-Life-Communities	5.000%	11/15/28	1,400,000	1,474,018
Acts Retirement-Life-Communities	5.000%	11/15/29	1,350,000	1,416,784
Pennsylvania Turnpike Commission, Refunding, Subordinated, Series B	5.000%	6/1/39	3,170,000	3,362,673
Philadelphia, PA, Authority for Industrial Development:				
Discovery Charter School Project	6.250%	4/1/37	500,000	503,315
Performing Arts Charter School Project	6.000%	6/15/23	360,000	372,481 <sup>(a)</sup>
<i>Total Pennsylvania</i>				<i>8,547,016</i>

See Notes to Financial Statements.

## Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Texas 20.7%</i>				
Arlington, TX, Special Tax Revenue, Subordinated Lien, Series C, BAM	5.000%	2/15/41	\$ 500,000	\$ 537,000
Arlington, TX, Higher Education Finance Corp., Refunding, Uplift Education, Series A	5.000%	12/1/46	200,000	209,882
Central Texas Regional Mobility Authority, Refunding, Subordinated Lien	5.000%	1/1/42	2,000,000	2,097,020
Dallas Love Field, TX:				
Airport Modernization Corp.	5.000%	11/1/33	20,000	21,902 <sup>(c)</sup>
Airport Modernization Corp.	5.000%	11/1/36	20,000	21,771 <sup>(c)</sup>
Airport Modernization Corp., Southwest Airlines Co. Project	5.250%	11/1/40	5,000,000	5,233,350
Dallas/Fort Worth, TX, International Airport, Joint Improvement, Series D	5.000%	11/1/42	4,000,000	4,168,160 <sup>(c)</sup>
Grand Parkway Transportation Corp., Convertible CAB, Series B (Step bond, 0.000% until 10/1/23; 5.500%)	0.000%	10/1/35	1,500,000	1,388,925
Gulf Coast Industrial Development Authority, Citgo Petroleum Corp. Project	4.875%	5/1/25	1,000,000	1,020,110 <sup>(c)</sup>
Harris County, TX, Cultural Education Facilities Finance Corp., Refunding, Baylor College of Medicine, Series D	5.625%	11/15/32	2,000,000	2,002,740 <sup>(b)</sup>
New Hope Cultural Education Facilities Finance Corp.:				
Cardinal Bay Inc., Village on the Park Carriage Inn Project	5.000%	7/1/46	100,000	106,675
Cardinal Bay Inc., Village on the Park Carriage Inn Project	5.000%	7/1/46	150,000	154,025
Cardinal Bay Inc., Village on the Park Carriage Inn Project	5.000%	7/1/51	150,000	159,910
Collegiate Housing Stephenville II LLC, Tartleton State University Project	5.000%	4/1/39	1,165,000	1,206,823
MRC Senior Living, Langford Project	5.375%	11/15/36	475,000	469,856
Refunding, MRC Crestview	5.000%	11/15/36	550,000	570,619
Refunding, Westminster Manor Project	5.000%	11/1/40	1,000,000	1,061,540
Tarrant County, TX, Cultural Education Facilities Finance Corp., Buckner Retirement Services Inc. Project	5.000%	11/15/37	700,000	739,578
Texas Midwest Public Facility Corp., Secure Treatment Facility Project	9.000%	10/1/30	2,000,000	460,000 <sup>*(d)</sup>
Texas Municipal Gas Acquisition & Supply Corp. III, Natural Gas Revenue	5.000%	12/15/28	1,500,000	1,606,965
Texas Private Activity Bond Surface Transportation Corp.:				
Senior Lien, Blueridge Transportation Group LLC	5.000%	12/31/40	1,000,000	1,050,260 <sup>(c)</sup>
Senior Lien, LBJ Infrastructure Group LLC	7.000%	6/30/40	4,000,000	4,260,520
Senior Lien, NTE Mobility Partners LLC	6.875%	12/31/39	2,000,000	2,091,400
Texas State Municipal Gas Acquisition & Supply Corp. I, Senior Lien, Series D	6.250%	12/15/26	1,000,000	1,141,080
Texas State Public Finance Authority Charter School Finance Corp., Cosmos Foundation Inc., Series A	6.200%	2/15/40	1,000,000	1,050,020 <sup>(b)</sup>

See Notes to Financial Statements.

## Schedule of investments (cont d)

October 31, 2018

## Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Texas continued</i>				
Texas State Water Development Board, State Water Implementation Fund, Series A	5.000%	10/15/43	\$ 1,000,000	\$ 1,116,410
Willacy County, TX, Jail Public Facilities Corp.	7.500%	11/1/25	395,000	353,608
<i>Total Texas</i>				<i>34,300,149</i>
<i>U.S. Virgin Islands 1.5%</i>				
Virgin Islands Public Finance Authority, Matching Fund Loan, Diageo Project, Series A	6.750%	10/1/37	2,400,000	2,432,400
<i>Utah 0.5%</i>				
Utah Charter School Finance Authority, Syracuse Arts Academy Project, UT CSCE	5.000%	4/15/42	250,000	267,300
Utah Infrastructure Agency, Series A	5.250%	10/15/33	550,000	605,209
<i>Total Utah</i>				<i>872,509</i>
<i>Virginia 2.3%</i>				
Virginia Port Authority:				
Refunding, Series B	5.000%	7/1/41	250,000	270,462 (c)
Refunding, Series B	5.000%	7/1/45	300,000	322,488 (c)
Virginia Small Business Financing Authority:				
Senior Lien, Elizabeth River Crossing OpCo LLC Project	5.250%	1/1/32	1,000,000	1,062,110
Senior Lien, Elizabeth River Crossing OpCo LLC Project	5.500%	1/1/42	2,000,000	2,134,760
<i>Total Virginia</i>				<i>3,789,820</i>
<i>Wisconsin 0.7%</i>				
Public Finance Authority:				
American Dream @ Meadowlands Project	7.000%	12/1/50	250,000	281,842 (a)
Refunding, Celanese Project, Series B	5.000%	12/1/25	550,000	602,756 (a)(c)
Refunding, Church Home of Hartford Inc.	5.000%	9/1/38	250,000	253,388 (a)
<i>Total Wisconsin</i>				<i>1,137,986</i>
<b>Total Investments before Short-Term Investments (Cost \$155,984,742)</b>				<b>162,002,592</b>
<b>Short-Term Investments 1.1%</b>				
<b>Municipal Bonds 1.1%</b>				
<i>California 0.2%</i>				
Alameda County Industrial Development Authority, JMS Family Partnership, Series A	1.650%	10/1/25	300,000	300,000 (f)(g)
<i>New York 0.5%</i>				
New York City, NY, HDC, Sustainable Neighborhood	1.610%	5/1/20	100,000	100,000 (f)(g)
New York State Housing Finance Agency:				
250 West 93rd Street, Series 2005-A, LOC - Landesbank Hessen	1.650%	11/1/38	300,000	300,000 (f)(g)
42nd and 10th Housing, LIQ-FHLMC	1.670%	11/1/41	200,000	200,000 (c)(f)(g)

See Notes to Financial Statements.



Western Asset Municipal High Income Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>New York continued</i>				
New York State Urban Development Corp., State Facilities A3A, SPA JP Morgan Chase Bank	1.610%	3/15/33	\$ 200,000	\$ 200,000 <sup>(f)(g)</sup>
<i>Total New York</i>				<i>800,000</i>
<i>North Carolina 0.1%</i>				
North Carolina Medical Care Commission, Novant Health Group, Series B SPA JPMorgan Chase	1.630%	11/1/34	200,000	200,000 <sup>(f)(g)</sup>
<i>Texas 0.1%</i>				
Houston, TX, Combined Utility System Revenue, Refunding, First Lien B-3	1.610%	5/15/34	100,000	100,000 <sup>(f)(g)</sup>
<i>Wyoming 0.2%</i>				
County of Uinta, WY, Refunding, Chevron USA Inc. Project	1.560%	8/15/20	300,000	300,000 <sup>(f)(g)</sup>
<b>Total Municipal Bonds (Cost \$1,700,000)</b>				<b>1,700,000</b>
Shares				
<b>Money Market Funds 0.0%</b>				
Dreyfus Government Cash Management, Institutional Shares (Cost \$24,253)	2.057%		24,253	24,253
<b>Total Short-Term Investments (Cost \$1,724,253)</b>				<b>1,724,253</b>
<b>Total Investments 98.8% (Cost \$157,708,995)</b>				<b>163,726,845</b>
Other Assets in Excess of Liabilities 1.2%				2,042,617
<b>Total Net Assets 100.0%</b>				<b>\$ 165,769,462</b>

\* Non-income producing security.

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors.

(b) Pre-Refunded bonds are escrowed with U.S. government obligations and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.

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

(d) The coupon payment on these securities is currently in default as of October 31, 2018.

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

(f) Variable rate demand obligations ( VRDOs ) have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice. The interest rate generally resets on a daily or weekly basis and is determined on the specific interest rate reset date by the Remarketing Agent, pursuant to a formula specified in official documents for the VRDO, or set at the highest rate allowable as specified in official documents for the VRDO. VRDOs are benchmarked to the Securities Industry and Financial Markets Association ( SIFMA ) Municipal Swap Index. The SIFMA Municipal Swap Index is compiled from weekly interest rate resets of tax-exempt VRDOs reported to the Municipal Securities Rulemaking Board's Short-term Obligation Rate Transparency System.

(g) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.

See Notes to Financial Statements.



## Schedule of investments (cont d)

October 31, 2018

### Western Asset Municipal High Income Fund Inc.

#### Abbreviations used in this schedule:

AGM	Assured Guaranty Municipal Corporation	Insured Bonds
BAM	Build America Mutual	Insured Bonds
CAB	Capital Appreciation Bonds	
CSCE	Charter School Credit Enhancement	
FHLMC	Federal Home Loan Mortgage Corporation	
GO	General Obligation	
GTD	Guaranteed	
HDC	Housing Development Corporation	
HEFA	Health & Educational Facilities Authority	
LOC	Letter of Credit	
PFA	Public Facilities Authority	
SPA	Standby Bond Purchase Agreement	Insured Bonds

#### Ratings Table (unaudited)\*

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

AAA/Aaa	1.1%
AA/Aa	8.9
A	36.5
BBB/Baa	37.7
BB/Ba	5.4
CCC/Caa	1.5
A-1/VMIG 1	1.1
NR***	7.8
	<b>100.0%</b>

\* As a percentage of total investments.

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

\*\*\*The credit quality of unrated investments is evaluated based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments.

See Notes to Financial Statements.

## Statement of assets and liabilities

October 31, 2018

<b>Assets:</b>	
Investments, at value (Cost \$157,708,995)	\$ 163,726,845
Interest receivable	2,754,272
Prepaid expenses	6,743
<b>Total Assets</b>	<b>166,487,860</b>
<b>Liabilities:</b>	
Distributions payable	551,640
Investment management fee payable	77,706
Directors' fees payable	4,203
Accrued expenses	84,849
<b>Total Liabilities</b>	<b>718,398</b>
<b>Total Net Assets</b>	<b>\$ 165,769,462</b>
<b>Net Assets:</b>	
Par value (\$0.01 par value; 21,632,934 shares issued and outstanding; 500,000,000 shares authorized)	\$ 216,329
Paid-in capital in excess of par value	163,455,699
Undistributed net investment income	277,456
Accumulated net realized loss on investments and futures contracts	(4,197,872)
Net unrealized appreciation on investments	6,017,850
<b>Total Net Assets</b>	<b>\$ 165,769,462</b>
<b>Shares Outstanding</b>	<b>21,632,934</b>
<b>Net Asset Value</b>	<b>\$7.66</b>

See Notes to Financial Statements.

## Statement of operations

For the Year Ended October 31, 2018

<b>Investment Income:</b>	
<i>Interest</i>	\$ 8,078,909
<b>Expenses:</b>	
Investment management fee (Note 2)	931,060
Audit and tax fees	52,080
Directors' fees	45,525
Transfer agent fees	32,090
Shareholder reports	22,039
Legal fees	21,500
Fund accounting fees	17,492
Stock exchange listing fees	12,538
Insurance	3,171
Custody fees	1,263
Interest expense	27
Miscellaneous expenses	11,971
<i>Total Expenses</i>	<i>1,150,756</i>
<b>Net Investment Income</b>	<b>6,928,153</b>
<b>Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):</b>	
Net Realized Gain (Loss) From:	
Investment transactions	(1,608,266)
Futures contracts	16,932
<i>Net Realized Loss</i>	<i>(1,591,334)</i>
<i>Change in Net Unrealized Appreciation (Depreciation) From Investments</i>	<i>(4,407,863)</i>
<b>Net Loss on Investments and Futures Contracts</b>	<b>(5,999,197)</b>
<b>Increase in Net Assets From Operations</b>	<b>\$ 928,956</b>

See Notes to Financial Statements.

## Statements of changes in net assets

For the Years Ended October 31,	2018	2017
<b>Operations:</b>		
Net investment income	\$ 6,928,153	\$ 6,919,366
Net realized loss	(1,591,334)	(23,825)
Change in net unrealized appreciation (depreciation)	(4,407,863)	(3,741,072)
<i>Increase in Net Assets From Operations</i>	<i>928,956</i>	<i>3,154,469</i>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(6,619,678)	(6,641,311)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(6,619,678)</i>	<i>(6,641,311)</i>
<i>Decrease in Net Assets</i>	<i>(5,690,722)</i>	<i>(3,486,842)</i>
<b>Net Assets:</b>		
Beginning of year	171,460,184	174,947,026
<b>End of year*</b>	<b>\$ 165,769,462</b>	<b>\$ 171,460,184</b>
*Includes undistributed (overdistributed) net investment income, respectively, of:	\$277,456	\$(19,373)

See Notes to Financial Statements.

## Financial highlights

For a share of capital stock outstanding throughout each year ended October 31:

	2018 <sup>1</sup>	2017 <sup>1</sup>	2016 <sup>1</sup>	2015 <sup>1</sup>	2014 <sup>1</sup>
Net asset value, beginning of year	\$7.93	\$8.09	\$7.97	\$8.11	\$7.55
<b>Income (loss) from operations:</b>					
Net investment income	0.32	0.32	0.31	0.36	0.36
Net realized and unrealized gain (loss)	(0.28)	(0.17)	0.14	(0.15)	0.57
<i>Total income from operations</i>	<i>0.04</i>	<i>0.15</i>	<i>0.45</i>	<i>0.21</i>	<i>0.93</i>
<b>Less distributions from:</b>					
Net investment income	(0.31)	(0.31)	(0.33)	(0.35)	(0.37)
<i>Total distributions</i>	<i>(0.31)</i>	<i>(0.31)</i>			