INSURED MUNICIPAL INCOME FUND INC
Form N-CSRS
December 07, 2009

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 811-07528

Insured Municipal Income Fund Inc.
(Exact name of registrant as specified in charter)

615 East Michigan Street
Milwaukee, WI 53202
(Address of principal executive offices) (Zip code)

Andrew Dakos
Brooklyn Capital Management, LLC
60 Heritage Drive
Pleasantville, NY 10570
(Name and address of agent for service)

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Registrant's telephone number, including area code

Date of fiscal year end: 12/31/2009

Date of reporting period: 09/30/2009

Item 1. Reports to Stockholders.

Insured Municipal Income
Fund Inc.
Semi-Annual Report
September 30, 2009

Insured Municipal Income Fund Inc.

November 27, 2009

Dear Fellow Shareholders:

I am pleased to have this initial opportunity to communicate with you about the past and more significantly, the future of Insured Municipal Income Fund.

As you probably know, earlier this year Andrew Dakos and I led a proxy contest in which the key issue was what, if any, action the board should take to address the Fund's persistent trading discount. At the annual meeting held on August 12, 2009 stockholders approved by a margin of 13.4 million votes to 0.7 million votes a proposal recommending that the board of directors take action, subject to market conditions, to afford common and preferred stockholders an opportunity to realize the net asset value of their shares. In addition, four of our nominees for director were elected.

Shortly thereafter, the two remaining incumbent directors resigned as did the Fund's investment advisor, UBS Global Asset Management (Americas) Inc. The board then elected two independent directors to fill the vacated seats. The independent directors and the full board also approved the appointment of Brooklyn Capital Management LLC to serve as the Fund's new investment advisor on an interim basis and to change the Fund's objective, subject to stockholder approval, to providing total return rather than tax free income.

In order to fulfill the stockholder mandate which we saw as affording all stockholders an opportunity to realize the intrinsic value of their shares, on September 11, 2009, the board directed the Fund's investment advisor to commence a program of selling the Fund's portfolio securities in an orderly and opportunistic fashion with the goal of (1) retiring the Fund's auction rate preferred shares and the tender option bonds and (2) funding a self-tender offer for the Fund's common shares. This selling program is continuing. As a result, the composition of the Fund's portfolio today is significantly different than it was on September 11, 2009.

The initial portfolio sales allowed us to redeem the Fund's auction rate preferred shares and the tender option bonds. While the board has not definitively determined the size or pricing for the tender offer for the common shares, it is our intention to afford the common stockholders an opportunity to monetize their shares at a price close to net asset value without materially adversely affecting non-tendering stockholders.

What do we envision for the future of the Fund? The name change we are proposing – Special Opportunities Fund – says it all. The principals of Brooklyn Capital Management, our newly formed investment advisory firm, include Steven Samuels, Andrew Dakos and me. We have a long history of opportunistic investing, primarily through hedge funds managed under the Bulldog Investors name. Since its inception almost seventeen years ago, our original hedge fund,

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Opportunity Partners L.P. has generated an annualized return of 12.8% vs. 7.4% for the S&P 500 Index. It has incurred a loss in only one of those years.*

We are generally value investors. Our bread and butter is investing in closed-end funds. I have personally been investing in closed-end funds for thirty-five years. However, we have also invested opportunistically in a number of other areas. In certain instances, we have employed activism to unlock the value of our investments. Unlike many other managers who are tethered to a benchmark, we are not interested in making an investment unless we perceive that we can get an edge. After the tender offer, we intend to apply this "edge" philosophy to managing the Fund.

As I see it, collective investment vehicles fall into three general categories: open-end funds, closed-end funds and private funds. Each has advantages and disadvantages for investors. For example, an open-end fund offers liquidity on a daily basis but restricts the manager from holding less liquid investments or using leverage. A closed-end fund provides more flexibility for the manager and afford investors daily liquidity but at a price that may be greater or less than net asset value. The primary advantage of a closed-end fund for investors is that it allows a talented investment manager to "do his thing" without having to worry about redemptions. In theory that should lead to better long-term performance than would be achievable in a comparable open-end fund.

However, in practice most closed-end funds do not generate superior performance. In my opinion, that is because the managers are either mediocre or are not sufficiently motivated to outperform their peers. Hopefully, you will agree that our track record is one that merits your support. And, I can assure you that complacency has no place in our mindset. I am personally committed to making our Fund a long-term success for our stockholders. My goal and that of the Brooklyn Capital Management team is that in ten years stockholders of Special Opportunities Fund will be able to look back and say that this is one of the best investments they ever made.

Sincerely yours,

Phillip Goldstein
Chairman

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* Performance data quoted represents past performance and is not predictive of future results. Performance quoted for Opportunity Partners is net of fees and expenses and reflects the net investment results of a single contribution at inception with no subsequent additions or withdrawals. Fees and expenses of an investment in Opportunity Partners are different than those of the Fund. Opportunity Partners has been audited on an annual basis since inception in 1993 through 2008.

Insured Municipal Income Fund Inc.

October 16, 2009

Dear shareholder,
We present you with the semi-annual report for Insured Municipal Income Fund Inc. (the "Fund") for the six months ended September 30, 2009.

Performance overview as provided by UBS Global Asset Management (Americas) Inc., the Fund's investment advisor and administrator until October 18, 2009:

The economy has remained weak thus far in 2009. Prior to the reporting period, first quarter 2009 gross domestic product (GDP) declined 6.4%. While the economy continued to contract during the second quarter of 2009, it was at a more modest pace, due in part to smaller declines in exports and business spending. The advance estimate for second quarter GDP showed a decline of 0.7%.

During the six-month reporting period, US municipal bonds significantly outperformed US Treasuries, with the Barclays Capital Municipal Bond Index returning 9.38%, while the Barclays Capital US Treasury Index declined 0.98%. Overall, bonds of lower credit quality performed strongly during this time. Spreads—the differences between the yields paid on US Treasury securities and other bonds with the same maturities—remain wide on a historical basis, although they continued to tighten during the reporting period. Strong inflows into municipal bond mutual funds influenced the outperformance of lower credit-quality issues during the six-month period.

The supply of municipal bonds in 2009 continues to be down, relative to 2008. The passing of US legislation allowing states to issue taxable bonds and receive a 35% "tax rebate" from the Federal government continues to affect the amount of new issuance of tax-exempt debt. Dubbed "Build America Bonds," these bonds have been issued at an average rate of $5 billion a month since April 2009, and it is estimated that states will issue about $60 billion in taxable debt over each of the next two years before the legislation expires. A decrease in the supply of municipal bonds tends to benefit their performance, all other things being equal.

Over the six months ended September 30, 2009, the Fund returned 16.87% on a net asset value basis and 28.40% on a market price basis. Over the same period, the median return of the Fund's peer group, the Lipper Insured Municipal Debt Funds (Leveraged) category, was 18.77% on a net asset value basis, and 23.14% on a market price basis. Finally, the Fund's benchmark, the Barclays Capital Municipal Bond Index (the "Index"), returned 9.38% during the six-month period.

Over the six-month period, the Fund's yield curve positioning greatly contributed to its outperformance versus the Index; the Fund's use of leverage also contributed strongly, as noted further below. The Fund maintained a significant underweight to the shorter end of the yield curve during most of the reporting period, which benefited the Fund following weak performance in this area during a good portion of the reporting period. Additionally, a significant overweight to the intermediate (15-year) area of the yield curve benefited performance as 15-year and longer municipals posted strong results. In the 20+ year area of the yield curve, the Fund's exposure was similar to that of the Index during most of the reporting period.

From a credit quality perspective, an overweight to AAA-rated issues—one of the weakest performers during the reporting period—weighed upon relative results. Lower-quality securities rallied during the reporting period; BBB-rated issues rebounded significantly, and an underweight to these securities hurt Fund performance as well. However, a significant underweight exposure to AA-rated issues was a slight positive for Fund performance during the reporting period.

In terms of sector positioning, we continued to place an emphasis on essential service revenue bonds throughout the reporting period, which benefited performance. We maintained this stance as we felt that this portion of the municipal market would hold up relatively well in the weakened economic environment. In particular, we focused on those securities that we believed offered attractive levels of revenue and better earnings stability than some other sectors of the municipal market. While a relative underweight exposure to hospital sector bonds and the IDR/PCR sector (that is, industrial development revenue bonds and pollution control revenue bonds) hurt performance, we maintained an overweight to transportation bonds, which helped Fund performance as that area rallied during the reporting period.

We focused our efforts on purchasing bonds from states that were, in our view, experiencing improved fiscal health and offering attractively valued municipal bonds. This was challenging at times, given the overall reduced liquidity in the market. During the period, we reduced the Fund's exposure to California state municipal bonds, given the state's budgetary issues. While these had performed poorly, they rallied during the period, and the Fund's underweight to this area detracted from relative performance.

The Fund's use of leverage over the period was beneficial. It helped the Fund to take advantage of low short-term rates and generate higher yields for common stockholders for the six-month reporting period overall. (Leverage magnifies returns on both the upside and on the downside.) However, near the end of the reporting period, the Fund's Board announced that it intended to redeem all of the Fund's auction preferred shares and terminate its Tender Option Bond Program in due course(1), and that it expected that a tender offer for the Fund's

(1) The Fund's leverage was fully eliminated in October 2009 as auction preferred shares were fully redeemed and the Tender Option Bond Program was terminated.

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common stock would commence prior to December 31, 2009. In order to fund the anticipated tender offer, the Board directed UBS Global Asset Management (Americas) Inc., the Fund's then-current investment adviser, to commence an orderly liquidation of a significant percentage of the Fund's portfolio securities. As a result, the Fund did not fully participate in the rally in municipal securities that took place during the latter half of September 2009. Additionally, as noted in a separate press release issued by the Fund on October 12, 2009, the Board announced that it does not intend to declare further dividends to common stockholders until after the completion of the previously announced tender offer.

This discussion of the Fund's performance is intended to assist shareholders in understanding how the Fund performed during the 6-month period ended September 30, 2009. The views and opinions expressed above were current as of October 16, 2009, and reflect the views of a predecessor advisor to the Fund which ceased to render such services as of October 18, 2009.

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Performance at a glance (unaudited)

Average annual total returns for common stock for periods ended 09/30/09

Net asset value returns	6 months	1 year	5 years	10 years
Insured Municipal Income Fund Inc.	16.87%	26.96%	4.41%	5.45%
Lipper Insured Municipal Debt Funds (Leveraged) median	18.77	24.61	4.44	6.20
Market price returns				
Insured Municipal Income Fund Inc.	28.40%	40.91%	6.76%	7.35%
Lipper Insured Municipal Debt Funds (Leveraged) median	23.14	39.38	4.96	6.68
Index returns				
Barclays Capital Municipal Bond Index	9.38%	14.85%	4.78%	5.77%

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor’s shares, when sold, may be worth more or less than their original cost. The Fund’s common stock net asset value (“NAV”) return assumes, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on the payable dates. The Fund’s common stock market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund’s Dividend Reinvestment Plan. NAV and market price returns for the period of less than one year have not been annualized. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

The Barclays Capital Municipal Bond Index (formerly known as the Lehman Brothers Municipal Bond Index) is an unmanaged, unleveraged measure of the total return for municipal bonds issued across the United States. Index returns do not include reinvestment of dividends. Investors should note that indices do not reflect the deduction of fees, expenses or taxes.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group.

Share price, dividend and yields as of 09/30/09	
Market price	$14.14
Net asset value (per share applicable to common shareholders)	$14.80
September 2009 dividend	$0.075
Market yield(1)	6.36%
NAV yield(1)	6.08%

(1) Market yield is calculated by multiplying the September 2009 dividend by 12 and dividing by the month-end market price. NAV yield is calculated by multiplying the September 2009 dividend by 12 and dividing by the month-end net asset value. Prices and yields will vary.

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Insured Municipal Income Fund Inc.

Portfolio statistics (unaudited)

Characteristics	09/30/09	03/31/09	09/30/08
Net assets applicable to common shareholders (mm)	$305.3	$269.3	$254.1
Weighted average maturity	10.5 yrs	15.5 yrs	14.9 yrs
Weighted average modified duration	2.8 yrs	7.4 yrs	9.3 yrs
Weighted average coupon	3.2%	5.5%	5.2%
Leverage(1)	29.8%	41.9%	45.1%
Securities subject to alternative minimum tax (AMT)(2)	5.5%	16.8%	18.0%
Maturing within five years(2)	26.3%	4.4%	0.7%
Maturing beyond five years(2)	73.7%	95.6%	99.3%
Insured securities(2)	83.5%	86.5%	85.5%
Non-insured securities(2)	16.5%	13.5%	14.5%

Portfolio composition(3)	09/30/09	03/31/09	09/30/08
Long-term municipal bonds	59.8%	107.7%	104.7%
Short-term municipal notes	21.4	0.3	0.7
Futures	—	—	0.0(4)
Cash equivalents and other assets less liabilities	18.8	(8.0)	(5.4)
Total	100.0%	100.0%	100.0%

Credit quality(2)	09/30/09	03/31/09	09/30/08
AAA	46.5%	48.5%	41.9%
AA	11.3	32.8	36.3
A	12.3	3.1	10.3
A-1	26.3	0.2	0.7
BBB	—	5.9	6.7
Nonrated	3.6	9.5	4.1
Total	100.0%	100.0%	100.0%

(1) Includes leverage attributable to both the Fund’s Auction Preferred Shares and the Tender Option Bond Program as a percentage of total assets. Leverage was terminated in October 2009, after the close of the fiscal period.
(2) Weightings represent percentages of total investments as of the dates indicated. The Fund’s portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are designated by Standard & Poor’s Rating Group, an independent rating agency.
(3) As a percentage of net assets applicable to common and preferred shareholders as of the dates indicated.
(4) Represents less than 0.05% of net assets applicable to common and preferred shareholders as of the date indicated.

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Portfolio statistics (unaudited) (concluded)

Top five states(1)	09/30/09		03/31/09		09/30/08
Illinois	14.0%	Illinois	15.8%	California	18.0%
New York	11.2	California	14.7	Illinois	14.0
California	11.1	New York	13.6	New York	11.1
Texas	8.2	Texas	10.4	Texas	10.0
Florida	7.3	Florida	9.4	Florida	9.8
Total	51.8%		63.9%		62.9%

Top five sectors(1)	09/30/09		03/31/09		09/30/08
General obligations	21.6%	Water	22.2%	Water	23.7%
Water	9.7	Airport	18.6	Airport	15.3
Power	9.6	General obligations	14.2	General obligations	14.7
Tolls	7.7	Tolls	9.0	Tolls	9.3
Hospital	6.9	Power	6.4	Power	9.3