

LMP CAPITAL & INCOME FUND INC.

Form N-CSR

February 01, 2018

[Table of Contents](#)

**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 811-21467**

**LMP Capital and 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: November 30**

**Date of reporting period: November 30, 2017**

**Table of Contents**

ITEM 1. REPORT TO STOCKHOLDERS.

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

**Table of Contents**

Annual Report

November 30, 2017

LMP

CAPITAL AND INCOME FUND INC. (SCD)

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

## Table of Contents

<b>What's inside</b>	
<a href="#">Letter from the chairman</a>	II
<a href="#">Investment commentary</a>	III
<a href="#">Fund overview</a>	1
<a href="#">Fund at a glance</a>	7
<a href="#">Schedule of investments</a>	8
<a href="#">Statement of assets and liabilities</a>	13
<a href="#">Statement of operations</a>	14
<a href="#">Statements of changes in net assets</a>	15
<a href="#">Statement of cash flows</a>	16
<a href="#">Financial highlights</a>	17
<a href="#">Notes to financial statements</a>	18
<a href="#">Report of independent registered public accounting firm</a>	28
<a href="#">Board approval of management and subadvisory agreements</a>	29
<a href="#">Additional information</a>	36
<a href="#">Annual chief executive officer and principal financial officer certifications</a>	43
<a href="#">Other shareholder communications regarding accounting matters</a>	44
<a href="#">Dividend reinvestment plan</a>	45
<a href="#">Important tax information</a>	47
<b>Fund objective</b>	

The Fund's investment objective is total return with an emphasis on income.

The Fund invests in a broad range of equity and fixed-income securities of both U.S. and foreign issuers. The Fund will vary its allocation between equity and fixed-income securities depending on the investment manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation.

## Letter from the chairman

### Dear Shareholder,

We are pleased to provide the annual report of LMP Capital and Income Fund Inc. for the twelve-month reporting period ended November 30, 2017. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

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

Fund prices and performance,

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

December 29, 2017

II LMP Capital and Income Fund Inc.

---

**Table of Contents**

## Investment commentary

### Economic review

Economic activity in the U.S. improved during the twelve months ended November 30, 2017 (the reporting period). Looking back, the U.S. Department of Commerce reported that U.S. gross domestic product (GDP) growth was 1.8% and 1.2%, as revised, for the fourth quarter of 2016 and the first quarter of 2017, respectively. Second quarter 2017 GDP growth then accelerated to 3.1%. Finally, the U.S. Department of Commerce's final reading for third quarter 2017 GDP growth released after the reporting period ended was 3.2%. Stronger growth was attributed to a number of factors, including positive contributions from private inventory investment and upturns in state and local government spending. These positive factors were partly offset by a decrease in personal consumption expenditures, nonresidential fixed investment and exports.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. When the reporting period ended on November 30, 2017, the unemployment rate was 4.1%, as reported by the U.S. Department of Labor. This equaled the lowest unemployment rate since December 2000. The percentage of longer-term unemployed declined during the reporting period. In November 2017, 23.8% of Americans looking for a job had been out of work for more than six months, versus 24.2% when the period began.

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

The Fed's next rate hike occurred at its meeting that ended on March 15, 2017, as it raised rates to a range between 0.75% and 1.00%. At its meeting that concluded on June 14, 2017, the Fed then raised rates to a range between 1.00% and 1.25%. During its meeting that concluded on September 20, 2017, the Fed kept rates on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program." Finally, at its meeting that ended on December 13, 2017, after the reporting period ended, the Fed raised rates to a range between 1.25% and 1.50%.

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 29, 2017

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

**Table of Contents**

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 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.

<sup>iii</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.

IV LMP Capital and Income Fund Inc.



---

**Table of Contents**

## Fund overview

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

A. The Fund's investment objective is total return with an emphasis on income. The Fund invests in a broad range of equity and fixed-income securities of both U.S. and foreign issuers. The Fund may invest without limit in both energy and non-energy master limited partnerships (MLPs), so long as no more than 25% of the Fund's total assets are invested in MLPs that are treated as qualified publicly traded partnerships (QPTPs). The Fund will vary its allocation between equity and fixed-income securities

depending on the investment manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation. Depending on the investment manager's view of these factors, which may vary from time to time, the investment manager may allocate substantially all of the investments in the portfolio to equity securities or fixed-income securities.

The Fund's investment manager applies a rigorous, bottom-up research process to identify companies with strong fundamentals, skilled and committed management teams and a clear market advantage. Through patient management, the Fund seeks to capture earnings growth from companies offering new or innovative technologies, products and services.

Peter Vanderlee, CFA of ClearBridge Investments, LLC (ClearBridge), one of the Fund's subadvisers, oversees the Fund's allocation between equity and fixed-income securities, as well as the Fund's equity investments in general, with a focus on dividend-paying securities. The ClearBridge portfolio management team also includes Mark McAllister, CFA, and Tatiana Thibodeau, who are focused on their respective areas of expertise: Mr. McAllister on real estate investment trusts (REITs) and Ms. Thibodeau on utilities. These individuals manage the equity side of the Fund with a bottom-up approach focused on the risk and reward of each investment opportunity.

A portfolio management team at Western Asset Management Company (Western Asset) manages the fixed-income portion of the Fund. The fixed-income portfolio management team includes portfolio managers S. Kenneth Leech, Chia-Liang (CL) Lian, Mark Lindbloom, Michael C. Buchanan and Ryan Brist. Their focus is on portfolio structure, including sector allocation, duration<sup>ii</sup> weighting and term structure decisions.

During the reporting period, the Fund was substantially invested in equity securities.

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

A. The major U.S. equity indices posted positive returns for the twelve-month reporting period ended November 30, 2017, as the Dow Jones Industrial Average<sup>iii</sup> and S&P 500 Index<sup>iv</sup> gained 30.02% and 22.87%, respectively. The NASDAQ Composite Index<sup>v</sup> returned 30.55% during the reporting period. Throughout the reporting period, investors focused on the potential impact of policy changes on health care, taxation and regulation. In particular, there was increased optimism for a more balanced regulatory approach to sectors including financial services and media/telecommunication.

Corporate earnings growth resumed after dipping earlier in 2016, helping broad equity

---

**Table of Contents**

## Fund overview (cont d)

index returns over the reporting period. With continued low unemployment and slow but steady economic growth, the Federal Reserve Board (the Fed<sup>i</sup>) raised the federal funds rate<sup>vii</sup> three times during the reporting period and began shrinking its \$4.5 trillion balance sheet of U.S. Treasury bonds and mortgage-backed securities at a gradual but accelerating pace. After stabilizing in 2016, crude oil gained 16% in the period, helped by strong global demand growth and reduced production.

A dominant theme toward the end of the reporting period was the apparent synchronization of global growth, as most major markets experienced increases in gross domestic product (GDP<sup>iii</sup>) growth rates and flat or decreasing unemployment. In the U.S., consumer sentiment reached a decade high in October 2017, even as the current expansion extended beyond historical norms.

The U.S. economy continued to expand during the reporting period, with U.S. GDP growth, as measured by the U.S. Department of Commerce, reaching and surpassing 3.0% during the third calendar quarter of 2017. The employment situation also improved, as the unemployment rate reached a multi-decade low of 4.1% in November 2017, despite temporary setbacks following hurricanes Harvey and Irma. Meanwhile, the Fed's preferred measure of inflation—core personal consumption expenditures—decelerated over the reporting period, with October 2017's 1.45% rate remaining below the central bank's long-term 2% target. U.S. ten-year Treasury yields remained largely flat over the reporting period, rising from an initial 2.37% and ending the period at 2.42%.

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

**A.** The Fund invests in equity securities that exhibit, in our opinion, an attractive income stream, including dividend-paying stocks, energy MLPs and REITs. Regarding dividend paying stocks, we believe that owning companies that exhibit sound or improving balance sheets, generate ample free cash flow, have the ability to sustain or increase the dividend, and are typically leaders in their respective industries can be attractive candidates for investment. As for energy MLPs, we remain steadfast in our belief that the U.S. renaissance in energy production represents a secular growth opportunity and is attractive for the long-term investor; in our assessment, energy production in the U.S. is in a good position to increase over time. And we view REITs as attractive over a full market cycle due to their attractive dividend yields and dividend growth characteristics, as well as real estate's portfolio diversification and inflation-hedging characteristics.

In the early stages of the reporting period, amid an increase in post-election investor and consumer confidence, we raised our equity market exposure in the Fund's portfolio, modestly increasing the Fund's leverage and reducing the Fund's holdings in business development companies (BDCs) in order to add to what we believed to be attractive opportunities in stocks, energy MLPs and mandatory convertible securities. In particular, we added to our holdings in the Information Technology (IT) sector in the common stock portion of the portfolio.

As we moved into the middle and late portions of the reporting period, we opportunistically took profits in certain common

## Table of Contents

stocks positions and continued to reduce our BDC holdings, re-investing portions of the proceeds in select Financials, Consumer Staples and Information Technology companies. We also reduced our energy MLP holdings in the latter part of the period.

The political situation in Washington D.C. is somewhat volatile, but we continue to believe the Fund's portfolio positioning is appropriate in the current circumstances given we are weighted toward equity securities, especially energy infrastructure, in a deregulating and tax-cutting climate that appears to bode well for economic growth, corporate profits and capital investment over the next year.

### Performance review

For the twelve months ended November 30, 2017, LMP Capital and Income Fund Inc. returned 8.40% based on its net asset value (NAV<sup>x</sup>) and 14.47% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Bloomberg Barclays U.S. Aggregate Index<sup>x</sup> and the S&P 500 Index, returned 3.21% and 22.87%, respectively. The Lipper Income and Preferred Stock Closed-End Funds Category Average<sup>xi</sup> returned 13.55% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$1.24 per share.\* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2017. **Past performance is no guarantee of future results.**

### Performance Snapshot as of November 30, 2017

Price Per Share	12-Month Total Return**
\$15.34 (NAV)	8.40%
\$13.76 (Market Price)	14.47%

**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, including returns of capital, at NAV.**

**Total return assumes the reinvestment of all distributions, including returns of capital, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

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

**A.** On an absolute basis during the reporting period, the Fund's greatest positive contributions to returns were found in the Financials, IT and Utilities sectors. Relative to the equity benchmark, security selection in the Telecommunication Services sector and underweights to the Consumer Staples and Consumer Discretionary sectors contributed the most to performance.

In terms of individual Fund holdings, leading contributors to performance for the period included Microsoft Corp., Blackstone Group LP, DowDuPont Inc., Lockheed Martin Corp. and Maxim Integrated Products Inc.

\*For the tax character of distributions paid during the fiscal year ended November 30, 2017, please refer to page 26 of this report.

**Table of Contents**

## Fund overview (cont'd)

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

**A.** On an absolute basis during the reporting period, the Fund's greatest negative contributions from returns were found in the Energy and Consumer Discretionary sectors. Relative to the equity benchmark, overall security selection and sector allocation detracted from performance. An overweight in the Energy sector and stock selection in the Health Care, Financials and Energy sectors detracted the most from relative returns.

In terms of individual Fund holdings, leading detractors from performance for the reporting period included Teva Pharmaceutical Industries Ltd, Enbridge Energy Partners LP, Genesis Energy LP, Energy Transfer Partners LP and National CineMedia Inc.

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

**A.** Among the largest additions to the Fund's portfolio during the period were QUALCOMM Inc., TPG RE Finance Trust, Inc. and Oracle Corp.

Some of the largest existing holdings that were sold over the course of the reporting period were Hospitality Properties Trust, General Electric and FS Investments.

### **Looking for additional information?**

The Fund is traded under the symbol **SCD** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XSCDX** 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 LMP Capital and 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,

Peter Vanderlee, CFA

Portfolio Manager

ClearBridge Investments, LLC

Mark McAllister

Portfolio Manager

Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

ClearBridge Investments, LLC

Tatiana Thibodeau

Portfolio Manager

ClearBridge Investments, LLC

Western Asset Management Company

(Fixed-Income Portion)

December 14, 2017

*RISKS: The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that*

**Table of Contents**

*the Fund will achieve its investment objective. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Because the Fund is non-diversified, it may be more susceptible to economic, political or regulatory events than a diversified fund. The Fund's investments are subject to a number of risks such as stock market and equity securities risk, MLP risk, fixed income securities risk, foreign investments risk, market events risk and portfolio management risk. Investments in MLP securities are subject to unique risks. The Fund's concentration of investments in energy-related MLPs subjects it to the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. MLP distributions are not guaranteed and there is no assurance that all such distributions will be tax deferred. Stock and bond prices are subject to fluctuation. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political, social, and economic conditions. These risks are magnified in emerging or developing markets. The Fund may invest in lower-rated high yield bonds or junk bonds, which are subject to greater liquidity and credit risk (risk of default) than higher-rated obligations. The repositioning of the Fund's portfolio may increase a shareholder's risk of loss associated with an investment in the Fund's shares. Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. 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. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. Dividends are not guaranteed, and a company may reduce or eliminate its dividend at any time. Distributions are not guaranteed and are subject to change.*

Portfolio holdings and breakdowns are as of November 30, 2017 and are subject to change and may not be representative of the portfolio managers' current or future investments. The Fund's top ten holdings (as a percentage of net assets) as of November 30, 2017 were: Lockheed Martin Corp. (4.0%), Microsoft Corp. (3.4%), Blackstone Group LP (3.4%), DowDuPont Inc. (3.1%), Golar LNG Partners LP (3.1%), Starwood Property Trust Inc. (2.7%), International Business Machines Corp. (2.4%), Ares Capital Corp. (2.4%), Genesis Energy LP (2.3%) and AGNC Investment Corp. (2.3%). Please refer to pages 8 through 12 for a list and percentage breakdown of the Fund's holdings.

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. The Fund's top five sector holdings (as a percentage of net assets) as of November 30, 2017 were: Master Limited Partnerships (33.2%), Financials (22.5%), Information Technology (16.1%), Real Estate (12.7%), and Health Care (9.7%). The Fund's portfolio composition is subject to change at any time.

**Table of Contents**

## Fund overview (cont d)

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

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

- <sup>i</sup> Real estate investment trusts ( REITs ) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.
- <sup>ii</sup> Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- <sup>iii</sup> The Dow Jones Industrial Average ( DJIA ) is a widely followed measurement of the stock market. The average is comprised of thirty stocks that represent leading companies in major industries. These stocks, widely held by both individual and institutional investors, are considered to be all blue-chip companies.
- <sup>iv</sup> The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- <sup>v</sup> The NASDAQ Composite Index is a market-value weighted index, which measures all securities listed on the NASDAQ stock market.
- <sup>vi</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>vii</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.
- <sup>viii</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>ix</sup> Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any), from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- <sup>x</sup> The Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- <sup>xi</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2017, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 30 funds in the Fund's

Lipper category.

6 LMP Capital and Income Fund Inc. 2017 Annual Report



**Table of Contents**

**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 November 30, 2017 and November 30, 2016. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

**Table of Contents****Schedule of investments**

November 30, 2017

**LMP Capital and Income Fund Inc.**

	Shares	Value
Security		
<b>Common Stocks 80.1%</b>		
<b>Consumer Discretionary 1.4%</b>		
<i>Media 1.4%</i>		
Regal Entertainment Group, Class A Shares	195,000	\$ <b>3,940,950</b> <sup>(a)</sup>
<b>Consumer Staples 4.6%</b>		
<i>Beverages 0.7%</i>		
PepsiCo Inc.	16,500	1,922,580
<i>Household Products 3.9%</i>		
Colgate-Palmolive Co.	50,000	3,622,500 <sup>(a)</sup>
Kimberly-Clark Corp.	36,000	4,311,360 <sup>(a)</sup>
Procter & Gamble Co.	30,500	2,744,695 <sup>(a)</sup>
<i>Total Household Products</i>		<i>10,678,555</i>
<b>Total Consumer Staples</b>		<b>12,601,135</b>
<b>Financials 15.9%</b>		
<i>Banks 2.9%</i>		
Bank of America Corp.	148,000	4,169,160
Citigroup Inc.	52,000	3,926,000
<i>Total Banks</i>		<i>8,095,160</i>
<i>Capital Markets 1.0%</i>		
CME Group Inc.	19,000	2,841,260
<i>Insurance 2.6%</i>		
AFLAC Inc.	26,000	2,278,640 <sup>(a)</sup>
MetLife Inc.	91,000	4,884,880 <sup>(a)</sup>
<i>Total Insurance</i>		<i>7,163,520</i>
<i>Mortgage Real Estate Investment (REITs) 9.4%</i>		
AGNC Investment Corp.	319,000	6,348,100 <sup>(a)</sup>
Annaly Capital Management Inc.	527,000	6,150,090 <sup>(a)</sup>
Starwood Property Trust Inc.	341,000	7,392,880 <sup>(a)</sup>
TPG RE Finance Trust Inc.	307,500	5,900,925 <sup>(a)</sup>
<i>Total Mortgage Real Estate Investment (REITs)</i>		<i>25,791,995</i>
<b>Total Financials</b>		<b>43,891,935</b>
<b>Health Care 7.0%</b>		
<i>Pharmaceuticals 7.0%</i>		
AstraZeneca PLC, ADR	62,000	2,037,940 <sup>(a)</sup>
Bristol-Myers Squibb Co.	44,000	2,780,360 <sup>(a)</sup>
GlaxoSmithKline PLC, ADR	41,000	1,437,460 <sup>(a)</sup>
Johnson & Johnson	23,000	3,204,590
Merck & Co. Inc.	92,000	5,084,840 <sup>(a)</sup>
Pfizer Inc.	131,000	4,750,060 <sup>(a)</sup>
<b>Total Health Care</b>		<b>19,295,250</b>

See Notes to Financial Statements.

**Table of Contents****LMP Capital and Income Fund Inc.**

	Shares	Value
Security		
<b>Industrials 7.8%</b>		
<i>Aerospace &amp; Defense 4.1%</i>		
Lockheed Martin Corp.		\$
	35,000	11,169,200 <sup>(a)</sup>
<i>Electrical Equipment 0.9%</i>		
Emerson Electric Co.	39,000	2,527,980 <sup>(a)</sup>
<i>Machinery 1.0%</i>		
Stanley Black & Decker Inc.	16,500	2,798,895 <sup>(a)</sup>
<i>Transportation Infrastructure 1.8%</i>		
Macquarie Infrastructure Corp.	74,000	4,941,720 <sup>(a)</sup>
<b>Total Industrials</b>		<b>21,437,795</b>
<b>Information Technology 16.1%</b>		
<i>Communications Equipment 0.8%</i>		
Cisco Systems Inc.	55,500	2,070,150
<i>IT Services 3.0%</i>		
International Business Machines Corp.	43,000	6,620,710 <sup>(a)</sup>
Paychex Inc.	25,000	1,682,750 <sup>(a)</sup>
<i>Total IT Services</i>		<i>8,303,460</i>
<i>Semiconductors &amp; Semiconductor Equipment 6.0%</i>		
Intel Corp.	41,000	1,838,440 <sup>(a)</sup>
Maxim Integrated Products Inc.	79,000	4,134,070 <sup>(a)</sup>
Microchip Technology Inc.	26,000	2,261,740
QUALCOMM Inc.	94,000	6,235,960 <sup>(a)</sup>
Texas Instruments Inc.	21,000	2,043,090 <sup>(a)</sup>
<i>Total Semiconductors &amp; Semiconductor Equipment</i>		<i>16,513,300</i>
<i>Software 5.3%</i>		
Microsoft Corp.	113,000	9,511,210 <sup>(a)</sup>
Oracle Corp.	106,000	5,200,360 <sup>(a)</sup>
<i>Total Software</i>		<i>14,711,570</i>
<i>Technology Hardware, Storage &amp; Peripherals 1.0%</i>		
Apple Inc.	15,500	2,663,675
<b>Total Information Technology</b>		<b>44,262,155</b>
<b>Materials 5.4%</b>		
<i>Chemicals 3.1%</i>		
DowDuPont Inc.	120,000	8,635,200 <sup>(a)</sup>
<i>Containers &amp; Packaging 1.6%</i>		
International Paper Co.	78,000	4,415,580 <sup>(a)</sup>
<i>Metals &amp; Mining 0.7%</i>		
Compass Minerals International Inc.	28,000	1,953,000 <sup>(a)</sup>
<b>Total Materials</b>		<b>15,003,780</b>

See Notes to Financial Statements.

**Table of Contents****Schedule of investments (cont d)**

November 30, 2017

**LMP Capital and Income Fund Inc.**

	Shares	Value
Security		
<b>Real Estate 10.5%</b>		
<i>Equity Real Estate Investment Trusts (REITs) 10.5%</i>		
Alexandria Real Estate Equities Inc.	18,900	\$ 2,401,434 <sup>(a)</sup>
Avalonbay Communities Inc.	5,600	1,015,448
EPR Properties	44,000	2,984,080 <sup>(a)</sup>
Equity Residential	30,000	2,004,600
Park Hotels & Resorts Inc.	137,400	4,012,080 <sup>(a)</sup>
Ramco-Gershenson Properties Trust	132,000	1,902,120 <sup>(a)</sup>
Retail Properties of America Inc., Class A Shares	155,000	2,024,300 <sup>(a)</sup>
Senior Housing Properties Trust	61,000	1,168,150 <sup>(a)</sup>
Simon Property Group Inc.	18,610	3,010,167 <sup>(a)</sup>
STORE Capital Corp.	47,500	1,226,450
Urstadt Biddle Properties Inc., Class A Shares	85,000	2,016,200 <sup>(a)</sup>
Weyerhaeuser Co.	150,000	5,307,000 <sup>(a)</sup>
<b>Total Real Estate</b>		<b>29,072,029</b>
<b>Telecommunication Services 5.6%</b>		
<i>Diversified Telecommunication Services 4.2%</i>		
AT&T Inc.	145,000	5,275,100 <sup>(a)</sup>
Verizon Communications Inc.	123,000	6,259,470 <sup>(a)</sup>
<i>Total Diversified Telecommunication Services</i>		<i>11,534,570</i>
<i>Wireless Telecommunication Services 1.4%</i>		
Vodafone Group PLC, ADR	125,000	3,847,500 <sup>(a)</sup>
<b>Total Telecommunication Services</b>		<b>15,382,070</b>
<b>Utilities 5.8%</b>		
<i>Electric Utilities 4.4%</i>		
Exelon Corp.	144,000	6,006,240 <sup>(a)</sup>
Great Plains Energy Inc.	105,000	3,602,550 <sup>(a)</sup>
PPL Corp.	71,000	2,603,570 <sup>(a)</sup>
<i>Total Electric Utilities</i>		<i>12,212,360</i>
<i>Multi-Utilities 1.4%</i>		
Ameren Corp.	35,000	2,238,600 <sup>(a)</sup>
CenterPoint Energy Inc.	53,500	1,605,535 <sup>(a)</sup>
<i>Total Multi-Utilities</i>		<i>3,844,135</i>
<b>Total Utilities</b>		<b>16,056,495</b>
<b>Total Common Stocks (Cost \$171,702,779)</b>		<b>220,943,594</b>
	Rate	
<b>Convertible Preferred Stocks 8.8%</b>		
<b>Energy 1.9%</b>		
<i>Oil, Gas &amp; Consumable Fuels 1.9%</i>		
Anadarko Petroleum Corp.	7.500%	157,000 <b>5,119,770</b> <sup>(a)</sup>

See Notes to Financial Statements.

**Table of Contents****LMP Capital and Income Fund Inc.**

	Rate	Shares	Value
Security			
<b>Health Care 2.7%</b>			
<i>Pharmaceuticals 2.7%</i>			
Allergan PLC	5.500%	6,800	\$ 4,231,708
Teva Pharmaceutical Industries Ltd.	7.000%	11,500	3,271,750
<b>Total Health Care</b>			<b>7,503,458</b>
<b>Industrials 0.3%</b>			
<i>Machinery 0.3%</i>			
Stanley Black & Decker Inc.	5.375%	7,830	<b>959,175</b>
<b>Real Estate 2.2%</b>			
<i>Equity Real Estate Investment Trusts (REITs) 2.2%</i>			
American Tower Corp.	5.500%	32,000	4,036,800
Crown Castle International Corp.	6.875%	1,700	1,966,543
<b>Total Real Estate</b>			<b>6,003,343</b>
<b>Utilities 1.7%</b>			
<i>Electric Utilities 1.7%</i>			
Nextera Energy Inc.	6.371%	67,000	<b>4,717,470</b>
<b>Total Convertible Preferred Stocks (Cost \$30,286,440)</b>			<b>24,303,216</b>
<b>Investments in Underlying Funds 6.6%</b>			
<b>Financials 6.6%</b>			
<i>Capital Markets 6.6%</i>			
Ares Capital Corp.		405,000	6,569,100 <sup>(a)(b)</sup>
Golub Capital BDC Inc.		132,000	2,500,080 <sup>(a)(b)</sup>
TCP Capital Corp.		297,990	4,723,142 <sup>(a)(b)</sup>
TriplePoint Venture Growth BDC Corp.		325,241	4,380,996 <sup>(a)(b)</sup>
<b>Total Investments in Underlying Funds (Cost \$18,641,381)</b>			<b>18,173,318</b>
		Shares/Units	
<b>Master Limited Partnerships 33.2%</b>			
<i>Diversified Energy Infrastructure 6.4%</i>			
Energy Transfer Partners LP		376,000	6,245,360 <sup>(a)</sup>
Enterprise Products Partners LP		197,000	4,852,110 <sup>(a)</sup>
Genesis Energy LP		300,000	6,441,000 <sup>(a)</sup>
<i>Total Diversified Energy Infrastructure</i>			<i>17,538,470</i>
<i>Financials 3.4%</i>			
Blackstone Group LP		297,000	9,420,840 <sup>(a)</sup>
<i>Global Infrastructure 2.9%</i>			
Brookfield Infrastructure Partners LP		60,000	2,570,400
Brookfield Renewable Partners LP		166,000	5,467,070
<i>Total Global Infrastructure</i>			<i>8,037,470</i>
<i>Liquids Transportation &amp; Storage 4.7%</i>			
Buckeye Partners LP		60,000	2,755,800 <sup>(a)</sup>

See Notes to Financial Statements.

**Table of Contents****Schedule of investments (cont d)**

November 30, 2017

**LMP Capital and Income Fund Inc.**

	Shares/Units	Value
Security		
<i>Liquids Transportation &amp; Storage continued</i>		
Enbridge Energy Partners LP	337,000	\$ 4,926,940 <sup>(a)</sup>
Magellan Midstream Partners LP	34,000	2,278,000 <sup>(a)</sup>
PBF Logistics LP	148,000	2,915,600 <sup>(a)</sup>
<i>Total Liquids Transportation &amp; Storage</i>		<i>12,876,340</i>
<i>Natural Gas Transportation &amp; Storage 3.7%</i>		
Hoegh LNG Partners LP	313,700	5,489,750 <sup>(a)</sup>
Williams Partners LP	130,000	4,771,000 <sup>(a)</sup>
<i>Total Natural Gas Transportation &amp; Storage</i>		<i>10,260,750</i>
<i>Offshore 2.0%</i>		
Dynagas LNG Partners LP	409,000	5,476,510 <sup>(a)</sup>
<i>Oil/Refined Products 3.6%</i>		
Andeavor Logistics LP	75,000	3,357,000
CrossAmerica Partners LP	67,000	1,612,020 <sup>(a)</sup>
MPLX LP	44,000	1,577,840
Sunoco LP	113,000	3,317,680 <sup>(a)</sup>
<i>Total Oil/Refined Products</i>		<i>9,864,540</i>
<i>Petrochemicals 0.9%</i>		
Westlake Chemical Partners LP	115,000	2,530,000 <sup>(a)</sup>
<i>Propane 0.9%</i>		
Suburban Propane Partners LP	106,000	2,558,840 <sup>(a)</sup>
<i>Shipping 4.7%</i>		
Golar LNG Partners LP	423,000	8,455,770 <sup>(a)</sup>
KNOT Offshore Partners LP	224,000	4,524,800 <sup>(a)</sup>
<i>Total Shipping</i>		<i>12,980,570</i>
<b>Total Master Limited Partnerships (Cost \$89,432,389)</b>		<b>91,544,330</b>
<b>Total Investments before Short-Term Investments (Cost \$310,062,989)</b>		<b>354,964,458</b>
	Rate	Shares
<b>Short-Term Investments 4.3%</b>		
State Street Institutional Treasury Money Market Fund, Premier Class	1.046%	11,865,065
<b>Total Short-Term Investments (Cost \$11,865,065)</b>		<b>11,865,065</b>
<b>Total Investments 133.0% (Cost \$321,928,054)</b>		<b>366,829,523</b>
Liabilities in Excess of Other Assets (33.0)%		(90,940,251)
<b>Total Net Assets 100.0%</b>		<b>\$ 275,889,272</b>

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 5).

(b) Security is a business development company (See Note 1).

**Abbreviation used in this schedule:**

ADR American Depositary Receipts

See Notes to Financial Statements.



**Table of Contents****Statement of assets and liabilities**

November 30, 2017

<b>Assets:</b>	
Investments, at value (Cost \$321,928,054)	\$ 366,829,523
Receivable for securities sold	3,511,859
Dividends and interest receivable	1,662,620
Prepaid expenses	9,059
<b>Total Assets</b>	<b>372,013,061</b>
<b>Liabilities:</b>	
Loan payable (Note 5)	90,000,000
Payable for securities purchased	5,681,466
Investment management fee payable	253,059
Interest payable	49,167
Directors' fees payable	4,941
Due to custodian	29
Accrued expenses	135,127
<b>Total Liabilities</b>	<b>96,123,789</b>
<b>Total Net Assets</b>	<b>\$ 275,889,272</b>
<b>Net Assets:</b>	
Par value (\$0.001 par value; 17,983,330 shares issued and outstanding; 100,000,000 shares authorized)	\$ 17,983
Paid-in capital in excess of par value	237,654,320
Undistributed net investment income	2,294,713
Accumulated net realized loss on investments and foreign currency transactions	(8,978,983)
Net unrealized appreciation on investments and foreign currencies	44,901,239
<b>Total Net Assets</b>	<b>\$ 275,889,272</b>
<b>Shares Outstanding</b>	<b>17,983,330</b>
<b>Net Asset Value</b>	<b>\$15.34</b>

See Notes to Financial Statements.



**Table of Contents****Statement of operations**

For the Year Ended November 30, 2017

<b>Investment Income:</b>	
Dividends and distributions	\$ 21,857,476
Return of capital (Note 1 (f))	(8,256,987)
<b>Net Dividends and distributions</b>	<b>13,600,489</b>
Interest	79,174
Less: Foreign taxes withheld	(203,059)
<b>Total Investment Income</b>	<b>13,476,604</b>
<b>Expenses:</b>	
Investment management fee (Note 2)	3,140,953
Interest expense (Note 5)	1,531,968
Audit and tax fees	91,152
Transfer agent fees	68,320
Directors' fees	67,980
Legal fees	44,506
Shareholder reports	28,580
Fund accounting fees	27,874
Stock exchange listing fees	14,659
Insurance	8,357
Franchise tax	4,830
Custody fees	3,639
Miscellaneous expenses	11,649
<b>Total Expenses</b>	<b>5,044,467</b>
<b>Net Investment Income</b>	<b>8,432,137</b>
<b>Realized and Unrealized Gain on Investments and Foreign Currency Transactions (Notes 1 and 3):</b>	
Net Realized Gain From:	
Investment transactions	7,958,178
REIT distributions	1,012,799
Foreign currency transactions	1,175
<b>Net Realized Gain</b>	<b>8,972,152</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	5,014,632
Foreign currencies	1,040
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>5,015,672</b>
<b>Net Gain on Investments and Foreign Currency Transactions</b>	<b>13,987,824</b>
<b>Increase in Net Assets From Operations</b>	<b>\$ 22,419,961</b>

See Notes to Financial Statements.

**Table of Contents****Statements of changes in net assets**

For the Years Ended November 30,	2017	2016
<b>Operations:</b>		
Net investment income	\$ 8,432,137	\$ 9,034,570
Net realized gain (loss)	8,972,152	(10,804,691)
Change in net unrealized appreciation (depreciation)	5,015,672	24,457,123
<i>Increase in Net Assets From Operations</i>	<i>22,419,961</i>	<i>22,687,002</i>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(10,249,947)	(8,281,321)
Return of capital	(12,049,382)	(14,018,009)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(22,299,329)</i>	<i>(22,299,330)</i>
<i>Increase in Net Assets</i>	<i>120,632</i>	<i>387,672</i>
<b>Net Assets:</b>		
Beginning of year	275,768,640	275,380,968
<b>End of year*</b>	<b>\$ 275,889,272</b>	<b>\$ 275,768,640</b>
*Includes undistributed net investment income of:	\$2,294,713	\$4,301,945

See Notes to Financial Statements.

**Table of Contents****Statement of cash flows**

For the Year Ended November 30, 2017

**Increase (Decrease) in Cash:****Cash Provided (Used) by Operating Activities:**

Net increase in net assets resulting from operations	\$ 22,419,961
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(142,492,948)
Sales of portfolio securities	134,614,806
Net purchases, sales and maturities of short-term investments	6,302,824
Investment transaction adjustments, net	1,104,984
Return of capital	8,256,987
Increase in receivable for securities sold	(3,353,622)
Increase in dividends and interest receivable	(349,152)
Decrease in prepaid expenses	2,142
Increase in payable for securities purchased	1,343,577
Increase in investment management fee payable	10,101
Decrease in Directors' fees payable	(282)
Decrease in interest payable	(56,793)
Decrease in accrued expenses	(34,120)
Net realized gain on investments	(7,958,178)
Change in net unrealized appreciation (depreciation) of investments	(5,014,632)
<i>Net Cash Provided by Operating Activities*</i>	<i>14,795,655</i>
<b>Cash Flows From Financing Activities:</b>	
Distributions paid on common stock	(22,299,329)
Proceeds from loan facility borrowings	7,500,000
Increase in due to custodian	29
<i>Net Cash Used in Financing Activities</i>	<i>(14,799,300)</i>
<b>Net Decrease in Cash</b>	<b>(3,645)</b>
Cash at Beginning of Year	3,645
Cash at End of Year	

\* Included in operating expenses is cash of \$1,588,761 paid for interest on borrowings.

See Notes to Financial Statements.

**Table of Contents****Financial highlights**

<b>For a share of capital stock outstanding throughout each year ended November 30:</b>					
	2017 <sup>1</sup>	2016 <sup>1</sup>	2015 <sup>1</sup>	2014 <sup>1</sup>	2013 <sup>1</sup>
Net asset value, beginning of year	\$15.33	\$15.31	\$19.37	\$17.53	\$14.43
<b>Income (loss) from operations:</b>					
Net investment income	0.47	0.50	0.58	1.12	0.72
Net realized and unrealized gain (loss)	0.78	0.76	(3.52)	1.84	3.50
<i>Total income (loss) from operations</i>	<i>1.25</i>	<i>1.26</i>	<i>(2.94)</i>	<i>2.96</i>	<i>4.22</i>
<b>Less distributions from:</b>					
Net investment income	(0.57)	(0.46)	(1.12)	(1.12)	(0.61)
Return of capital	(0.67)	(0.78)			(0.51)
<i>Total distributions</i>	<i>(1.24)</i>	<i>(1.24)</i>	<i>(1.12)</i>	<i>(1.12)</i>	<i>(1.12)</i>
Net asset value, end of year	\$15.34	\$15.33	\$15.31	\$19.37	\$17.53
Market price, end of year	\$13.76	\$13.11	\$12.80	\$17.27	\$15.91
<i>Total return, based on NAV<sup>2,3</sup></i>	<i>8.40%</i>	<i>8.84%</i>	<i>(15.80)%</i>	<i>17.43%</i>	<i>30.37%</i>
<i>Total return, based on Market Price<sup>4</sup></i>	<i>14.47%</i>	<i>12.88%</i>	<i>(20.38)%</i>	<i>16.04%</i>	<i>23.50%</i>
Net assets, end of year (000s)	\$275,889	\$275,769	\$275,381	\$348,253	\$315,244
<b>Ratios to average net assets:</b>					
Gross expenses	1.80%	1.54%	1.35%	1.44%	1.41%
Net expenses	1.80	1.54	1.35	1.44	1.41
Net investment income	3.00	3.38	3.27	6.07	4.41
<b>Portfolio turnover rate</b>	<b>37%</b>	<b>29%</b>	<b>30%</b>	<b>27%</b>	<b>38%</b>
<b>Supplemental data:</b>					
Loan Outstanding, End of Year (000s)	\$90,000	\$82,500	\$75,000	\$100,000	\$77,000
Asset Coverage Ratio for Loan Outstanding <sup>5</sup>	407%	434%	467%	448%	509%
Asset Coverage, per \$1,000 Principal Amount of Loan Outstanding <sup>5</sup>	\$4,065	\$4,343	\$4,672	\$4,483 <sup>6</sup>	\$5,094 <sup>6</sup>
Weighted Average Loan (000s)	\$88,849	\$75,307	\$69,096	\$93,614	\$77,000
Weighted Average Interest Rate on Loan	1.72%	1.13%	0.90%	0.81%	0.84%

<sup>1</sup> Per share amounts have been calculated using the average shares method.

<sup>2</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

<sup>3</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results.

<sup>4</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

<sup>5</sup> Represents value of net assets plus the loan outstanding at the end of the period divided by the loan outstanding at the end of the period.

<sup>6</sup> Added to conform to current period presentation.

[See Notes to Financial Statements.](#)

---

**Table of Contents**

## Notes to financial statements

### 1. Organization and significant accounting policies

LMP Capital and Income Fund Inc. (the Fund) was incorporated in Maryland on November 12, 2003 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is total return with an emphasis on income. The Fund invests in a broad range of equity and fixed-income securities of both U.S. and foreign issuers. The Fund will vary its allocation between equity and fixed-income securities depending on the investment manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

**(a) Investment valuation.** Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

## **Table of Contents**

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (the "Valuation Committee"). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

**Table of Contents****Notes to financial statements (cont d)**

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term investments :				
Common stocks	\$ 220,943,594			\$ 220,943,594
Convertible preferred stocks	24,303,216			24,303,216
Investments in underlying funds	18,173,318			18,173,318
Master limited partnerships	91,544,330			91,544,330
Total long-term investments	354,964,458			354,964,458
Short-term investments	11,865,065			11,865,065
<b>Total investments</b>	<b>\$ 366,829,523</b>			<b>\$ 366,829,523</b>

See Schedule of Investments for additional detailed categorizations.

**(b) Business development companies.** The Fund may invest in securities of closed-end investment companies that have elected to be treated as a business development company under the 1940 Act. A business development company operates similar to an exchange-traded fund and represents a portfolio of securities. The Fund may purchase a business development company to gain exposure to the securities in the underlying portfolio. The risks of owning a business development company generally reflect the risks of owning the underlying securities. Business development companies have expenses that reduce their value.

**(c) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the



## **Table of Contents**

Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(d) Master limited partnerships.** The Fund may invest without limit in the securities of both energy and non-energy Master Limited Partnerships ( MLPs ), so long as no more than 25% of the Fund's total assets are invested in MLPs that are treated for U.S. federal tax purposes as qualified publicly traded partnerships. This 25% limitation applies generally to MLPs that focus on commodity and energy-related industries. Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. To be treated as a partnership for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real estate rents, gain from the sale or disposition of real property, income and gain from mineral or natural resources activities, income and gain from the transportation or storage of certain fuels, and, in certain circumstances, income and gain from commodities or futures, forwards and options with respect to commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members). The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/or natural resources sector.

The Fund, and entities in which the Fund invests, may be subject to audit by the Internal Revenue Service or other applicable tax authorities. The Fund's taxable income or tax liability for prior taxable years could be adjusted if there is an audit of the Fund, or of any entity that is treated as a partnership for tax purposes in which the Fund holds an equity interest. The Fund may be required to pay a fund-level tax as a result of such an adjustment or may pay a deficiency dividend to its current shareholders in order to avoid a fund-level tax associated with the adjustment. The Fund could also be required to pay interest and penalties in connection with such an adjustment.

**Table of Contents**

## Notes to financial statements (cont'd)

**(e) Partnership accounting policy.** The Fund records its pro rata share of the income (loss) and capital gains (losses), to the extent of distributions it has received, allocated from the underlying partnerships and accordingly adjusts the cost basis of the underlying partnerships for return of capital. These amounts are included in the Fund's Statement of Operations.

**(f) Return of capital estimates.** Distributions received from the Fund's investments in MLPs generally are comprised of income and return of capital and distributions received from the Fund's investments in Real Estate Investment Trusts (REITs) generally are comprised of income, realized capital gains and return of capital. The Fund records investment income, realized capital gains and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP or REIT and other industry sources. These estimates may subsequently be revised based on information received from the MLPs and REITs after their tax reporting periods are concluded.

**(g) Foreign investment risks.** The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

**(h) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income (including interest income from payment-in-kind securities), adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date for dividends received in cash and/or securities. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(i) Distributions to shareholders.** Distributions from net investment income by the Fund, if any, are declared and paid on a quarterly basis. The Fund intends to distribute all of its net investment income earned each quarter and any cash received during the quarter from its investments in MLPs and REITs. The Fund intends to distribute the cash received from MLPs and REITs even if all or a portion of that cash may represent a return of capital to the Fund. The Fund may distribute additional amounts if required under the income tax regulations. Distributions of net realized gains, if any, are declared at least annually. Pursuant to its Managed Distribution Policy, the Fund intends to make regular quarterly distributions to shareholders at a fixed rate per common share, which rate may be adjusted

## **Table of Contents**

from time to time by the Fund's Board of Directors. Under the Fund's Managed Distribution Policy, if, for any quarterly distribution, the value of the Fund's net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund's net assets (and may constitute a return of capital). The Board of Directors may modify, terminate or suspend the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such modification, termination or suspension could have an adverse effect on the market price of the Fund's shares. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(j) Cash flow information.** The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statements of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

**(k) Compensating balance arrangements.** The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

**(l) Federal and other taxes.** It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

The Fund may invest up to 25% of its total assets in MLPs, which generally are treated for federal income tax purposes as qualified publicly traded partnerships. As a limited partner in the MLPs, the Fund reports its allocable share of the MLP's taxable income in computing its own taxable income. The distributions paid by the MLPs generally do not constitute income for tax purposes. Each MLP may allocate losses to the Fund which are generally not deductible in computing the Fund's taxable income until such time as that particular MLP either generates income to offset those losses or the Fund disposes of units in that MLP. This may result in the Fund's taxable income being substantially different than its book income in any given year. As a result, the Fund may have insufficient taxable income to support its distributions paid resulting in a return of capital to shareholders. A return of capital distribution is generally not treated as taxable income to shareholders and instead reduces a shareholder's basis in their shares of the Fund.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of November 30, 2017, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have

**Table of Contents****Notes to financial statements (cont d)**

not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

**(m) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	\$ (190,597)	\$ 109,971,110	\$ (109,780,513)
(b)	1,175	(1,175)	

(a) Reclassifications are due to the expiration of a capital loss carryforward and book/tax differences in the treatment of distributions from real estate investment trusts.

(b) Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes.

## **2. Investment management agreement and other transactions with affiliates**

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

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.85% of the Fund's average daily net assets plus the proceeds of any outstanding borrowings used for leverage and any proceeds from the issuance of preferred stock.

LMPFA delegates to the subadvisers the day-to-day portfolio management of the Fund. ClearBridge provides investment advisory services to the Fund by both determining the allocation of the Fund's assets between equity and fixed-income investments and performing the day-to-day management of the Fund's investments in equity securities. Western Asset provides advisory services to the Fund by performing the day-to-day management of the Fund's fixed-income investments. For its services, LMPFA pays the subadvisers monthly 70% of the net management fee it receives from the Fund. This fee will be divided on a pro rata basis, based on assets allocated to each subadviser, from time to time.

Western Asset Limited provides certain advisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated securities. Western Asset Limited does not receive any compensation from the Fund. In turn, Western Asset pays Western Asset Limited monthly a subadvisory fee of 0.30% on the assets managed by Western Asset Limited.

**Table of Contents**

During periods in which the Fund utilizes financial leverage, the fees paid to LMPFA will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund’s assets, including those investments purchased with leverage.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

**3. Investments**

During the year ended November 30, 2017, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$ 142,492,948
Sales	134,614,806

At November 30, 2017, the aggregate cost of investments and the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
Securities	\$ 321,878,073	\$ 63,426,820	\$ (18,475,370)	\$ 44,951,450

**4. Derivative instruments and hedging activities**

During the year ended November 30, 2017, the Fund did not invest in derivative instruments.

**5. Loan**

The Fund has a revolving credit agreement with Pershing LLC, which permits the Fund to borrow up to an aggregate amount of \$110,000,000, subject to the approval of Pershing LLC, and renews daily for a 180-day term unless notice to the contrary is given to the Fund. The interest on the loan is calculated at a variable rate based on the one-month LIBOR, plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund’s custodian on the behalf of Pershing, LLC. The Fund’s credit agreement contains customary covenants that, among other things, may limit the Fund’s ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under certain conditions and may contain other provisions that could limit the Fund’s ability to utilize borrowing under the agreement. Interest expense related to the loan for the year ended November 30, 2017 was \$1,531,968. For the year ended November 30, 2017, the Fund had an average daily loan balance outstanding of \$88,849,315 and the weighted average interest rate was 1.72%. At November 30, 2017, the Fund had \$90,000,000 of borrowings outstanding per this credit agreement.

**Table of Contents****Notes to financial statements (cont'd)****6. Distributions subsequent to November 30, 2017**

The following distribution has been declared by the Fund's Board of Directors and is payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
12/22/17	12/29/17	\$ 0.310

**7. Stock repurchase program**

On November 16, 2015, the Fund announced that the Fund's Board of Directors (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the year ended November 30, 2017, the Fund did not repurchase any shares.

**8. Income tax information and distributions to shareholders**

The tax character of distributions paid during the fiscal years ended November 30, was as follows:

	2017	2016
<b>Distributions paid from:</b>		
Ordinary income	\$ 10,249,947	\$ 8,281,321
Tax return of capital	12,049,382	14,018,009
<b>Total distributions paid</b>	<b>\$ 22,299,329</b>	<b>\$ 22,299,330</b>

As of November 30, 2017, the components of accumulated earnings (losses) on a tax basis were as follows:

Deferred capital losses*	\$ (3,397,448)
Capital loss carryforward**	(3,245,411)
Other book/tax temporary differences <sup>(a)</sup>	(3,258,577)
Unrealized appreciation (depreciation) <sup>(b)</sup>	48,118,405
<b>Total accumulated earnings (losses) net</b>	<b>\$ 38,216,969</b>

\* These capital losses have been deferred in the current year as either short-term or long-term losses. The losses will be deemed to occur on the first day of the next taxable year in the same character as they were originally deferred and will be available to offset future taxable capital gains. These losses must be utilized before any of the Fund's capital loss carryforward may be utilized.

\*\* As of November 30, 2017, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
11/30/2018	\$ (3,245,411)

This amount will be available to offset any future taxable capital gains.

## Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

- (a) Other book/tax temporary differences are attributable to to passive activity losses disallowed for tax purposes in partnership interests and book/tax differences in the timing of the deductibility of various expenses.
- (b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales and the difference between book and tax cost basis in limited partnership investments.

26 LMP Capital and Income Fund Inc. 2017 Annual Report

**Table of Contents**

**9. Recent accounting pronouncement**

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, the final rules ) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. The Fund has adopted the amendments to Regulation S-X and, upon evaluation, has concluded that the amendments do not materially impact the financial statement amounts; however, as required, additional or enhanced disclosure has been included.



**Table of Contents**

## Report of independent registered public accounting firm

### To the Board of Directors and Shareholders of the LMP Capital and Income Fund Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets, and of cash flows and the financial highlights present fairly, in all material respects, the financial position of the LMP Capital and Income Fund Inc. (the Fund ) as of November 30, 2017, the results of its operations and its cash flows, the changes in its net assets and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities as of November 30, 2017 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion. The financial statements of the Fund as of and for the year ended November 30, 2016 and the financial highlights for each of the years ended on or prior to November 30, 2016 (not presented herein, other than the statement of changes in net assets and the financial highlights) were audited by other auditors whose report dated January 19, 2017 expressed an unqualified opinion on those financial statements and financial highlights.

/s/PricewaterhouseCoopers LLP

Baltimore, Maryland

January 23, 2018

---

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited)

### Background

The Investment Company Act of 1940, as amended (the 1940 Act ), requires that the Board of Directors (the Board ) of LMP Capital and Income Fund Inc. (the Fund ), including a majority of its members who are not considered to be interested persons under the 1940 Act (the Independent Directors ) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement ) with the Fund's manager, Legg Mason Partners Fund Advisor, LLC (the Manager ), and the sub-advisory agreements (individually, a

Sub-Advisory Agreement, and collectively, the Sub-Advisory Agreements ) with the Manager's affiliates, ClearBridge Investments, LLC (formerly ClearBridge Advisors, LLC) ( ClearBridge ), Western Asset Management Company ( Western Asset ) and Western Asset Management Company Limited in London ( Western Asset London, and with ClearBridge and Western Asset, collectively, the Sub-Advisers ). At a meeting (the Contract Renewal Meeting ) held in-person on November 8 and 9, 2017, the Board, including the Independent Directors, considered and approved the continuation of each of the Management Agreement and the Sub-Advisory Agreements for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreements, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information ) about the Manager and the Sub-Advisers, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board's supervision (the Legg Mason Closed-end Funds ), certain portions of which are discussed below. A presentation made by the Manager and Western Asset to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreements encompassed the Fund and other Legg Mason Closed-end Funds. ClearBridge also made a presentation to the Board at the Contract Renewal Meeting regarding its sub-advisory services to the Fund. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Advisers to the Fund. The Board's evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Boards of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Advisers.

At a meeting held by conference call on November 2, 2017, the Independent Directors in preparation for the Contract Renewal Meeting met in a private session with their independent counsel to review Contract Renewal Information in respect of the Legg Mason Closed-end Funds, including the Fund, received to date. No representatives of the Manager or the Sub-Adviser participated in this meeting. The discussion below reflects all of these reviews.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Advisers together provide the Fund with

---

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

certain investment sub-advisory services pursuant to the Sub-Advisory Agreements. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Advisers.

### **Board approval of management agreement and sub-advisory agreements**

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreements, the Board, including the Independent Directors, considered the factors below.

### **Nature, extent and quality of the services under the management agreement and sub-advisory agreements**

The Board received and considered Contract Renewal Information regarding the nature, extent, and quality of services provided to the Fund by the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund's compliance policies and procedures established pursuant to the 1940 Act.

The Board reviewed the qualifications, backgrounds, and responsibilities of the Fund's senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board's discussions with the Manager, ClearBridge and Western Asset at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager, ClearBridge and Western Asset and their affiliates and the financial resources available to the corporate parent of the Manager and the Sub-Advisers, Legg Mason, Inc. (Legg Mason), to support their activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, including the Manager's coordination and oversight of the services provided to the Fund by ClearBridge, Western Asset and others and Western Asset's coordination and oversight of the services provided to the Fund by Western Asset London. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement, the Manager does not provide day-to-day portfolio management services to the Fund. Rather, portfolio management services for the Fund are provided by Western Asset pursuant to the Sub-Advisory Agreement (the Western Asset Sub-Advisory Agreement) between the Manager and Western Asset and by ClearBridge pursuant to the Sub-Advisory Agreement between the Manager and ClearBridge. The Western Asset Sub-Advisory Agreement permits Western Asset to delegate certain of its responsibilities, including its investment sub-advisory duties thereunder, provided that Western Asset, in each case, will supervise the activities of the

## **Table of Contents**

delegee. Pursuant to this provision of the Western Asset Sub-Advisory Agreement, Western Asset London helps Western Asset to provide portfolio management services to the Fund pursuant to a separate Sub-Advisory Agreement between Western Asset and Western Asset London. The Board also considered the brokerage policies and practices of the Manager and ClearBridge, the standards applied in seeking best execution, the policies and practices of the Manager and ClearBridge regarding soft dollars, the use of a broker affiliated with the Manager or ClearBridge, and the existence of quality controls applicable to brokerage allocation procedures.

In reaching its determinations regarding continuation of the Management Agreement and the Sub-Advisory Agreements, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the reputation and the investment style, philosophy and strategy of the Manager, ClearBridge and Western Asset, as well as the resources available to the Manager and the Sub-Advisers.

The Board concluded that, overall, the nature, extent, and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements have been satisfactory under the circumstances.

## **Fund performance**

The Board received and considered information regarding Fund performance, including information and analyses (the Broadridge Performance Information ) for the Fund, as well as for a group of comparable funds (the Performance Universe ) selected by Broadridge Financial Solutions, Inc. ( Broadridge ), an independent provider of investment company data. The Board was provided with a description of the methodology Broadridge used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged income and preferred stock closed-end funds, as classified by Broadridge, regardless of asset size. The Performance Universe ranged from a low of seventeen funds, including the Fund, for the 10-year period ended June 30, 2017 to a high of twenty-eight funds, including the Fund, for the 1-year period ended such date. The Board noted that it had received and discussed with the Manager, ClearBridge, and Western Asset information throughout the year at periodic intervals comparing the Fund s performance against its benchmark and its peer funds as selected by Broadridge.

The Broadridge Performance Information comparing the Fund s performance to that of the Performance Universe based on net asset value per share showed, among other things, that among the funds in the Performance Universe, the Fund s performance was ranked in the fourth quintile for each of the 1- and 5-year periods ended June 30, 2017 and the fifth quintile for each of the 3- and 10-year periods ended such date. In these performance rankings, the first quintile represents funds with the best performance among the funds in the Performance Universe and the fifth quintile represents funds with poorest performance among

---

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

the funds in the Performance Universe. The Fund's performance was worse than the median performance of the Performance Universe for each of the 1-, 3-, 5- and 10-year periods. In reviewing the Fund's performance relative to the Performance Universe, the Manager noted that, in light of the low interest rate environment, the Fund favored investments in equity asset classes that provided higher income streams than bonds. The Manager expressed continued confidence that a combination of high quality dividend paying stocks, REITs, and energy MLPS provides an attractive asset mix with the potential for diversification benefits. In addition to the Fund's performance relative to the Performance Universe, the Board considered the Fund's performance in absolute terms and the Fund's performance relative to its benchmark. On a net asset value basis, the Fund underperformed its benchmark for each of the 1-, 3-, and 5-year periods ended June 30, 2017.

Based on the reviews and discussions of Fund performance and considering other relevant factors, including those noted above, the Board expressed its disappointment in the Fund's recent performance in recent periods but concluded, under the circumstances, that continuation of the Management Agreement and the Sub-Advisory Agreements for an additional one-year period would be consistent with the interests of the Fund and its shareholders in light of the Fund's performance over longer term periods.

### Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fees (the Sub-Advisory Fees) payable to the Sub-Advisers under the Sub-Advisory Agreements in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Advisers. The Board noted that the Sub-Advisory Fees payable to ClearBridge and Western Asset under their Sub-Advisory Agreements with the Manager are paid by the Manager, not the Fund, and, accordingly, that the retention of ClearBridge and Western Asset does not increase the fees or expenses otherwise incurred by the Fund's shareholders. Similarly, the Board noted that the Sub-Advisory Fees payable to Western Asset London under its Sub-Advisory Agreement with Western Asset are paid by Western Asset, not the Fund, and, accordingly, that the retention of Western Asset London does not increase the fees or expenses otherwise incurred by the Fund's shareholders.

Additionally, the Board received and considered information and analyses prepared by Broadridge (the Broadridge Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Broadridge. The comparison was based upon the constituent funds' latest fiscal years. The Expense Group consisted of the Fund and nine other leveraged income and preferred stock closed-end funds, as classified by Broadridge. The ten funds in the Expense Group had average net common share assets ranging from \$86.5 million to \$459.4 million. Four of the other Expense Group funds were larger than the Fund and five were smaller.

**Table of Contents**

The Broadridge Expense Information, comparing the Management Fee as well as the Fund's actual total expenses to the Fund's Expense Group, showed, among other things, that the Management Fee on a contractual basis was ranked seventh (first being lowest and, therefore, best in these expense component rankings) among the funds in the Expense Group and was worse (i.e., higher) than the Expense Group median for that expense component. Among the Expense Group funds, the Fund's actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) was ranked sixth compared on the basis of common share assets only and seventh on the basis of common share and leveraged assets. In each case, the Fund's actual Management Fee was worse than the Expense Group median for that expense component. The Broadridge Expense Information further showed that among the Expense Group funds, the Fund's actual total expenses ranked second compared on the basis of common share assets only and third on the basis of common share and leveraged assets. In each case, the Fund's actual total expenses were better than the Expense Group median for that expense component. The Board noted that the small number of funds in the Expense Group made meaningful expense comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients (collectively, institutional clients) generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to institutional clients. Among other things, institutional clients have fewer compliance, administration and other needs than the Fund and the Fund is subject not only to heightened regulatory requirements relative to institutional clients but also to requirements for listing on the New York Stock Exchange. The Contract Renewal Information noted further that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund's chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry from the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and the services provided to the Legg Mason Open-end Funds. The Board considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fees were reasonable in light of the nature, extent and overall quality

---

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements.

### Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager's fiscal years ended March 31, 2017 and March 31, 2016. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager's revenue and cost allocation methodologies used in preparing such profitability data. The profitability to each of the Sub-Advisers was not considered to be a material factor in the Board's considerations since the Sub-Advisers' fees are paid by the Manager in the case of ClearBridge and Western Asset and by Western Asset in the case of Western Asset London. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager had increased by 4 percent during the period covered by the analysis but remained at a level that the Board did not consider to be excessive in light of judicial guidance and the nature, extent and overall quality of the investment advisory and other services provided to the Fund.

### Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund's assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund's investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure, which incorporates no breakpoints reducing the Management Fee at specified increased asset levels, was appropriate under present circumstances.

### Other benefits to the manager and the sub-advisers

The Board considered other benefits received by the Manager, the Sub-Advisers and their affiliates as a result of their relationship with the Fund, including the opportunity to obtain research services from brokers who effect Fund portfolio transactions, and did not regard such benefits as excessive.

\* \* \* \* \*

In light of all of the foregoing and other relevant factors, the Board determined, under the circumstances, that continuation of the Management Agreement and the Sub-Advisory Agreements would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year. No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreements, and each Board member may have attributed different weights

**Table of Contents**

to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreements as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreements in private sessions with their independent legal counsel at which no representatives of the Manager or any Sub-Adviser were present.



**Table of Contents****Additional information** (unaudited)**Information about Directors and Officers**

The business and affairs of LMP Capital and Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Jane Trust, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

The Fund's annual proxy statement includes additional information about Directors and is available, without charge, upon request by calling the Fund at 1-888-777-0102.

**Independent Directors:****Robert D. Agdern**

Year of birth	1950
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University (2002 to 2016); formerly, Deputy General Counsel responsible for western hemisphere matters for BP PLC (1999 to 2001); formerly, Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments (1993 to 1998) (Amoco merged with British Petroleum in 1998 forming BP PLC).
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	None

**Carol L. Colman**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	None

**Daniel P. Cronin**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	None

**Table of Contents**

**Independent Directors cont d**

**Paolo M. Cucchi**

Year of birth	1941
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2007
Principal occupation(s) during past five years	Emeritus Professor of French and Italian (since 2014) and formerly, Vice President and Dean of The College of Liberal Arts (1984 to 2009) and Professor of French and Italian (2009 to 2014) at Drew University
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	None

**Leslie H. Gelb**

Year of birth	1937
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	Consultant and Lecturer; President Emeritus (since 2003); formerly, Senior Board Fellow (2003 to 2015) and President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994); Trustee, Encyclopedia Britannica; Director, Centre Partners IV and V, LP and Affiliates

**William R. Hutchinson**

Year of birth	1942
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Independent Directors cont d**

**Eileen A. Kamerick**

Year of birth	1958
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2013
Principal occupation(s) during past five years	National Association of Corporate Directors Board Leadership Fellow and financial expert; Adjunct Professor, The University of Chicago Law School (since 2018); Adjunct Professor, Washington University in St. Louis and University of Iowa law schools (since 2007); formerly, Senior Advisor to the Chief Executive Officer and Executive Vice President and Chief Financial Officer of ConnectWise, Inc. (software and services company) (2015 to 2016); Chief Financial Officer, Press Ganey Associates (health care informatics company) (2012 to 2014); Managing Director and Chief Financial Officer, Houlihan Lokey (international investment bank) and President, Houlihan Lokey Foundation (2010 to 2012)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	Trustee of AIG Funds and Anchor Series Trust (since 2018); Hochschild Mining plc (precious metals company) (since 2016); Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (2003 to 2016)

**Riordan Roett**

Year of birth	1938
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2003
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Latin American Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director during past five years	None

**Table of Contents**

**Interested Director and Officer:**

**Jane Trust, CFA<sup>2</sup>**

Year of birth	1962
Position(s) held with Fund <sup>1</sup>	Director, Chairman, President and Chief Executive Officer, Class II
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2016); Officer and/or Trustee/Director of 150 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2015); President and Chief Executive Officer of LMPFA (since 2015); formerly, Senior Vice President of LMPFA (2015); Director of ClearBridge, LLC (formerly, Legg Mason Capital Management, LLC) (2007 to 2014); Managing Director of Legg Mason Investment Counsel & Trust Co. (2000 to 2007)
Number of portfolios in fund complex overseen by Director (including the Fund)	143
Other board memberships held by Director during past five years	None

**Additional Officers:**

**Todd F. Kuehl<sup>3</sup>**

Legg Mason

100 International Drive, 9th Floor, Baltimore, MD 21202

Year of birth	1969
Position(s) held with Fund <sup>1</sup>	Chief Compliance Officer
Term of office <sup>1</sup> and length of time served	Since 2017
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co. (since 2011); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Chief Compliance Officer of Legg Mason Private Portfolio Group (prior to 2010); formerly, Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002 to 2006)

**Jenna Bailey**

Legg Mason

100 First Stamford Place, 5th Floor, Stamford, CT 06902

Year of birth	1978
Position(s) held with Fund <sup>1</sup>	Identity Theft Prevention Officer
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2015); Compliance Officer of Legg Mason & Co. (since 2013); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Associate Compliance Officer of Legg Mason & Co. (2011 to 2013)

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Additional Officers cont d**

**Robert I. Frenkel**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2003

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel U.S. Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Thomas C. Mandia**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2006

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of LM Asset Services, LLC ( LMAS ) (since 2002) and Legg Mason Fund Asset Management, Inc. ( LMFAM ) (since 2013) (formerly registered investment advisers)

**Richard F. Sennett**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)

**Table of Contents**

**Additional Officers cont d**

**Jennifer S. Berg<sup>4</sup>**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth	1973
Position(s) held with Fund <sup>1</sup>	Treasurer
Term of office <sup>1</sup> and length of time served	Since 2018
Principal occupation(s) during past five years	Director of Legg Mason & Co. (since 2014); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2018); formerly, Vice President of Legg Mason & Co. (2011 to 2014)

**Jeanne M. Kelly**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth	1951
Position(s) held with Fund <sup>1</sup>	Senior Vice President
Term of office <sup>1</sup> and length of time served	Since 2009
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); President and Chief Executive Officer of LMAS and LMFAM (since 2015); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); formerly, Senior Vice President of LMFAM (2013 to 2015)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act").

<sup>1</sup> The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2018, year 2019 and year 2020, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year, to hold office until their successors are duly elected and qualified.

<sup>2</sup> Ms. Trust is an interested person of the Fund as defined in the 1940 Act because Ms. Trust is an officer of LMPFA and certain of its affiliates.

<sup>3</sup> Effective May 11, 2017, Mr. Kuehl became Chief Compliance Officer.

<sup>4</sup> Effective January 1, 2018, Ms. Berg became Treasurer.

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Change in Independent Registered Public Accounting Firm**

On August 14, 2017, KPMG LLP ( KPMG ) resigned, at the request of the Fund, as the independent registered public accounting firm to the Fund. The Audit Committee of the Fund's Board of Directors participated in, and approved, the decision to change the independent registered public accounting firm. KPMG's reports on the Fund's financial statements for the fiscal periods ended November 30, 2016 and November 30, 2015 contained no adverse opinion or disclaimer of opinion nor were they qualified or modified as to uncertainty, audit scope or accounting principle. During the Fund's fiscal periods ended November 30, 2016 and November 30, 2015 and the subsequent interim period through August 14, 2017, (i) there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG, would have caused them to make reference to the subject matter of the disagreements in connection with their reports on the Fund's financial statements for such periods, and (ii) there were no reportable events of the kind described in Item 304(a)(1)(v) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

The Audit Committee of the Fund's Board of Directors approved the engagement of PricewaterhouseCoopers LLP ( PwC ) as the Fund's independent registered public accounting firm for the fiscal year ending November 30, 2017. The selection of PwC does not reflect any disagreements with or dissatisfaction by the Fund or the Board of Directors with the performance of the Fund's prior independent registered public accounting firm, KPMG. During the Fund's fiscal periods ended November 30, 2016 and November 30, 2015, and the subsequent interim period through August 14, 2017, neither the Fund, nor anyone on its behalf, consulted with PwC on items which: (i) concerned the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Fund's financial statements; or (ii) concerned the subject of a disagreement (as defined in paragraph (a)(1)(iv) of Item 304 of Regulation S-K) or reportable events (as described in paragraph (a)(1)(v) of said Item 304).

**Table of Contents**

**Annual chief executive officer and principal financial officer certifications**  
(unaudited)

The Fund's Chief Executive Officer ( CEO ) has submitted to the NYSE the required annual certification and the Fund also has included the Certifications of the Fund's CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

LMP Capital and Income Fund Inc.

43



**Table of Contents**

## Other shareholder communications regarding accounting matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

---

**Table of Contents**

## Dividend reinvestment plan (unaudited)

On December 15, 2016, the Fund announced that the Board of Directors has authorized changes to the Fund's Dividend Reinvestment Plan (the Plan) with respect to dividend reinvestment determinations and transaction fees for Plan participants selling their shares. A copy of the revised Plan is included below.

Effective July 1, 2017, the Fund uses the dividend payment date to determine if new shares are issued or shares are purchased in the open market for Plan participants reinvesting their distributions. If on the payment date the closing market price (plus \$0.03 per share commission) is at or above the net asset value (NAV), the Fund will issue new shares of common stock. Newly issued shares of common stock will be issued at a price equal to the greater of (a) the NAV per share on the date prior to issuance or (b) 95% of the closing market price per share. If the closing market price (plus \$0.03 per share commission) is lower than the NAV per share on the payment date, the Plan Agent will receive the distribution in cash and purchase common stock in the open market. In addition, effective July 1, 2017, fees paid by Plan participants to sell Fund shares increased, with Plan participants paying a \$5.00 transaction fee plus a \$0.05 per share commission upon a sale of shares held pursuant to the Plan.

### Revised dividend reinvestment plan:

Unless you elect to receive distributions in cash (i.e., opt-out), all dividends, including any capital gain dividends and return of capital distributions, on your Common Stock will be automatically reinvested by Computershare Trust Company, N.A., as agent for the stockholders (the Plan Agent), in additional shares of Common Stock under the Fund's Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by Computershare Trust Company, N.A., as dividend paying agent.

If you participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

(1) If the market price of the Common Stock (plus \$0.03 per share commission) on the payment date (or, if the payment date is not a NYSE trading day, the immediately preceding trading day) is equal to or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date, the Fund will issue new Common Stock at a price equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the payment date or (b) 95% of the market price per share of the Common Stock on the payment date.

(2) If the net asset value per share of the Common Stock exceeds the market price of the Common Stock (plus \$0.03 per share commission) at the close of trading on the NYSE on the payment date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Stock in the open market, on the NYSE or elsewhere, for your account as soon as practicable commencing on the trading day following the payment date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the payment date for the next succeeding dividend or distribution to be made to the stockholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period:

**Table of Contents**

## Dividend reinvestment plan (unaudited) (cont d)

(i) the market price (plus \$0.03 per share commission) rises so that it equals or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Stock in the open market and the Fund shall issue the remaining Common Stock at a price per share equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the day prior to the issuance of shares for reinvestment or (b) 95% of the then current market price per share.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan. You may withdraw from the Plan (i.e., opt-out) by notifying the Plan Agent in writing at 462 South 4th Street, Suite 1600, Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared dividend or distribution on the Common Stock.

Plan participants who sell their shares will be charged a service charge (currently \$5.00 per transaction) and the Plan Agent is authorized to deduct brokerage charges actually incurred from the proceeds (currently \$0.05 per share commission). There is no service charge for reinvestment of your dividends or distributions in Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional shares of Common Stock, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Stock over time. Dollar cost averaging is a technique for lowering the average cost per share over time if the Fund's net asset value declines. While dollar cost averaging has definite advantages, it cannot assure profit or protect against loss in declining markets.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Investors will be subject to income tax on amounts reinvested under the Plan.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. The Plan may be terminated, amended or supplemented by the Fund upon notice in writing mailed to stockholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the termination or amendment is to be effective. Upon any termination, you will be sent cash for any fractional share of Common Stock in your account. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your Common Stock on your behalf. Additional information about the Plan and your account may be obtained from the Plan Agent at 462 South 4th Street, Suite 1600, Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151.

**Table of Contents**

**Important tax information** (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended November 30, 2017:

Record date:	12/21/2016	3/22/2017	6/21/2017	9/21/2017
Payable date:	12/30/2016	4/3/2017	7/3/2017	10/2/2017
Ordinary income:				
Qualified dividend income for individuals	4.65%	100.00%*	100.00%*	100.00%*
Dividends qualifying for the dividends received deduction for corporations	5.10%	100.00%*	100.00%*	100.00%*
Tax return of capital		72.05%	72.05%	72.05%

\* Expressed as a percentage of the distributions paid reduced by the return of capital.  
Please retain this information for your records.

**Table of Contents**

LMP

Capital and Income Fund Inc.

**Directors**

Robert D. Agdem

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Jane Trust

*Chairman*

**Officers**

Jane Trust

*President and Chief Executive Officer*

Richard F. Sennett

*Principal Financial Officer*

Todd F. Kuehl\*

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Prevention Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

## Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

Jennifer S. Berg\*\*

*Treasurer*

Jeanne M. Kelly

*Senior Vice President*

\* Effective May 11, 2017, Mr. Kuehl became Chief Compliance Officer.

\*\* Effective January 1, 2018, Ms. Berg became Treasurer.

### **LMP Capital and Income Fund Inc.**

620 Eighth Avenue

49th Floor

New York, NY 10018

### **Investment manager**

Legg Mason Partners Fund Advisor, LLC

### **Subadvisers**

ClearBridge Investments, LLC

Western Asset Management Company

Western Asset Management Company Limited

### **Custodian**

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

### **Transfer agent**

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

### **Independent registered public accounting firm**

PricewaterhouseCoopers LLP Baltimore, MD

### **Legal counsel**

Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

**New York Stock Exchange Symbol**

SCD

**Table of Contents**

## Legg Mason Funds Privacy and Security Notice

### **Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds**

This Privacy and Security Notice (the **Privacy Notice**) addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

### **The Type of Nonpublic Personal Information the Funds Collect About You**

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

Personal information included on applications or other forms;

Account balances, transactions, and mutual fund holdings and positions;

Online account access user IDs, passwords, security challenge question responses; and

Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

### **How the Funds Use Nonpublic Personal Information About You**

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

Employees, agents, and affiliates on a **need to know** basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;

Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

The Funds' representatives such as legal counsel, accountants and auditors; and

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.



NOT PART OF THE ANNUAL REPORT

**Table of Contents**

## Legg Mason Funds Privacy and Security Notice (cont'd)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

### **Keeping You Informed of the Funds' Privacy and Security Practices**

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

### **The Funds' Security Practices**

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at [www.leggmason.com](http://www.leggmason.com), or contact the Fund at 1-888-777-0102.

**NOT PART OF THE ANNUAL REPORT**

**Table of Contents**

LMP Capital and Income Fund Inc.

LMP Capital and Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

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

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) at [www.lmcef.com](http://www.lmcef.com) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of LMP Capital and Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

**FD03548 1/18 SR17-3249**

---

**Table of Contents**

**ITEM 2. CODE OF ETHICS.**

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

The Board of Directors of the registrant has determined that Eileen A. Kamerick, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

(a) **Audit Fees.** The aggregate fees billed in the previous fiscal years ending November 30, 2016 and November 30, 2017 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$76,300 in 2016 and \$119,345 in 2017.

(b) **Audit-Related Fees.** The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in 2016 and \$0 in 2017.

(c) **Tax Fees.** The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$0 in November 30, 2016 and \$7,790 in November 30, 2017. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

(d) **All Other Fees.** There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the LMP Capital and Income Fund Inc.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to LMP Capital and Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an

**Table of Contents**

Adviser ) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund ( Covered Service Providers ) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the LMP Capital and Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2016 and 2017; Tax Fees were 100% and 100% for 2016 and 2017; and Other Fees were 100% and 100% for 2016 and 2017.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to LMP Capital and Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to LMP Capital and Income Fund Inc. during the reporting period were \$0 in 2016 and \$160,000 in 2017.

(h) Yes. LMP Capital and Income Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's

**Table of Contents**

independence. All services provided by the Auditor to the LMP Capital and Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Robert D. Agdern

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Dr. Riordan Roett

b) Not applicable

**ITEM 6. SCHEDULE OF INVESTMENTS.**

Included herein under Item 1.

**ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES**

**Proxy Voting Guidelines and Procedures**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser's Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund's portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge

Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

(1) by calling 888-777-0102, (2) on the fund's website at <http://www.lmcef.com> and (3) on the SEC's website at <http://www.sec.gov>.

**Table of Contents**

**CLEARBRIDGE INVESTMENTS**  
**PROXY VOTING POLICIES AND PROCEDURES**

- I. Types of Accounts for Which ClearBridge Votes Proxies
  
- II. General Guidelines
  
- III. How ClearBridge Votes
  
- IV. Conflicts of Interest
  - A. Procedures for Identifying Conflicts of Interest
  
  - B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest
  
  - C. Third Party Proxy Voting Firm Conflicts of Interest
  
- V. Voting Policy
  - A. Election of Directors
  
  - B. Proxy Contests
  
  - C. Auditors
  
  - D. Proxy Contest Defenses
  - E. Tender Offer Defenses
  
  - F. Miscellaneous Governance Provisions
  
  - G. Capital Structure



H. Executive and Director Compensation

I. State of Incorporation

J. Mergers and Corporate Restructuring

K. Social and Environmental Issues

L. Miscellaneous

VI. Other Considerations

A. Share Blocking

B. Securities on Loan

VII. Disclosure of Proxy Voting

VIII. Recordkeeping and Oversight

<sup>1</sup> This policy pertains to ClearBridge Investments, LLC and ClearBridge, LLC (collectively, ClearBridge Investments or ClearBridge ).

**Table of Contents**

**CLEARBRIDGE INVESTMENTS**

**Proxy Voting Policies and Procedures**

**I. TYPES OF ACCOUNTS FOR WHICH CLEARBRIDGE VOTES PROXIES**

ClearBridge votes proxies for each client that has specifically authorized us to vote them in the investment management contract or otherwise and votes proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves the responsibility to vote proxies to the plan trustees or other named fiduciary. These policies and procedures are intended to fulfill applicable requirements imposed on ClearBridge by the Investment Advisers Act of 1940, as amended, the Investment Company Act of 1940, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations adopted under these laws.

**II. GENERAL GUIDELINES**

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the accounts we manage and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values.

**III. HOW CLEARBRIDGE VOTES**

Section V of these policies and procedures sets forth certain stated positions. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Section V that we consider in voting on such issue, we consider those factors and vote on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that we consider in voting on such issue, we vote on a case-by-case basis in accordance with the general principles set forth above. We may utilize an external service provider to provide us with information and/or a recommendation with regard to proxy votes but we are not required to follow any such recommendations. The use of an external service provider does not relieve us of our responsibility for the proxy vote.

For routine matters, we usually vote according to our policy or the external service provider's recommendation, although we are not obligated to do so and an individual portfolio manager may vote contrary to our policy or the recommendation of the external service provider. If a matter is non-routine, *e.g.*, management's recommendation is different than that of the external service provider and ClearBridge is a significant holder or it is a significant holding for ClearBridge, the issues will be highlighted to the appropriate investment teams and their views solicited by members of the Proxy Committee. Different investment teams may vote differently on the same issue, depending upon their assessment of clients' best interests.

ClearBridge's proxy voting process is overseen and coordinated by its Proxy Committee.

#### **IV. CONFLICTS OF INTEREST**

In furtherance of ClearBridge's goal to vote proxies in the best interests of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge's interests and those of its clients before voting proxies on behalf of such clients.

##### **A. Procedures for Identifying Conflicts of Interest**

ClearBridge relies on the following to seek to identify conflicts of interest with respect to proxy voting:

1. ClearBridge's employees are periodically reminded of their obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships or personal or business relationships relating to another Legg Mason business unit, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge's General Counsel/Chief Compliance Officer.
2. ClearBridge's finance area maintains and provides to ClearBridge Compliance and proxy voting personnel an up-to-date list of all client relationships that have historically accounted for or are projected to account for greater than 1% of ClearBridge's net revenues.

**Table of Contents**

3. As a general matter, ClearBridge takes the position that relationships between a non-ClearBridge Legg Mason unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-ClearBridge Legg Mason affiliate) do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer because ClearBridge operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between ClearBridge and certain other Legg Mason business units. As noted above, ClearBridge employees are under an obligation to bring such conflicts of interest, including conflicts of interest which may arise because of an attempt by another Legg Mason business unit or non-ClearBridge Legg Mason officer or employee to influence proxy voting by ClearBridge to the attention of ClearBridge Compliance.
4. A list of issuers with respect to which ClearBridge has a potential conflict of interest in voting proxies on behalf of client accounts will be maintained by ClearBridge proxy voting personnel. ClearBridge will not vote proxies relating to such issuers until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described in Section IV below.

**B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest**

1. ClearBridge maintains a Proxy Committee which, among other things, reviews and addresses conflicts of interest brought to its attention. The Proxy Committee is comprised of such ClearBridge personnel (and others, at ClearBridge's request), as are designated from time to time. The current members of the Proxy Committee are set forth in the Proxy Committee's Terms of Reference.
2. All conflicts of interest identified pursuant to the procedures outlined in Section IV. A. must be brought to the attention of the Proxy Committee for resolution. A proxy issue that will be voted in accordance with a stated ClearBridge position on such issue or in accordance with the recommendation of an independent third party generally is not brought to the attention of the Proxy Committee for a conflict of interest review because ClearBridge's position is that any conflict of interest issues are resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party.
3. The Proxy Committee will determine whether a conflict of interest is material. A conflict of interest will be considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, ClearBridge's decision-making in voting the proxy. All materiality determinations will be based on an assessment of the particular facts and circumstances. A written record of all materiality determinations made by the Proxy Committee will be maintained.
4. If it is determined by the Proxy Committee that a conflict of interest is not material, ClearBridge may vote proxies notwithstanding the existence of the conflict.

5. If it is determined by the Proxy Committee that a conflict of interest is material, the Proxy Committee will determine an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination shall be based on the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc. Such methods may include:

disclosing the conflict to clients and obtaining their consent before voting;

suggesting to clients that they engage another party to vote the proxy on their behalf;

in the case of a conflict of interest resulting from a particular employee's personal relationships, removing such employee from the decision-making process with respect to such proxy vote; or

such other method as is deemed appropriate given the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc.\*

A written record of the method used to resolve a material conflict of interest shall be maintained.

**Table of Contents**

**C. Third Party Proxy Voting Firm Conflicts of Interest**

With respect to a third party proxy voting firm described herein, the Proxy Committee will periodically review and assess such firm's policies, procedures and practices with respect to the disclosure and handling of conflicts of interest.

**V. VOTING POLICY**

These are policy guidelines that can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account holding the shares being voted. There may be occasions when different investment teams vote differently on the same issue. A ClearBridge investment team (*e.g.*, ClearBridge's Social Awareness Investment team) may adopt proxy voting policies that supplement these policies and procedures. In addition, in the case of Taft-Hartley clients, ClearBridge will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services (ISS) PVS Proxy Voting Guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

\* Especially in the case of an apparent, as opposed to actual, conflict of interest, the Proxy Committee may resolve such conflict of interest by satisfying itself that ClearBridge's proposed vote on a proxy issue is in the best interest of client accounts and is not being influenced by the conflict of interest.

**A. Election of Directors**

1. Voting on Director Nominees in Uncontested Elections.

a. We withhold our vote from a director nominee who:

attended less than 75 percent of the company's board and committee meetings without a valid excuse (illness, service to the nation/local government, work on behalf of the company);

were members of the company's board when such board failed to act on a shareholder proposal that received approval of a majority of shares cast for the previous two consecutive years;

received more than 50 percent withheld votes of the shares cast at the previous board election, and the company has failed to address the issue as to why;

is an insider where: (1) such person serves on any of the audit, compensation or nominating committees of the company's board, (2) the company's board performs the functions typically

performed by a company's audit, compensation and nominating committees, or (3) the full board is less than a majority independent (unless the director nominee is also the company CEO, in which case we will vote FOR);

is a member of the company's audit committee, when excessive non-audit fees were paid to the auditor, or there are chronic control issues and an absence of established effective control mechanisms.

b. We vote for all other director nominees.

2. Chairman and CEO is the Same Person.

We vote on a case-by-case basis on shareholder proposals that would require the positions of the Chairman and CEO to be held by different persons. We would generally vote FOR such a proposal unless there are compelling reasons to vote against the proposal, including:

Designation of a lead director

Majority of independent directors (supermajority)

All independent key committees

Size of the company (based on market capitalization)

Established governance guidelines

Company performance

**Table of Contents**

3. Majority of Independent Directors

- a. We vote for shareholder proposals that request that the board be comprised of a majority of independent directors. Generally that would require that the director have no connection to the company other than the board seat. In determining whether an independent director is truly independent (e.g. when voting on a slate of director candidates), we consider certain factors including, but not necessarily limited to, the following: whether the director or his/her company provided professional services to the company or its affiliates either currently or in the past year; whether the director has any transactional relationship with the company; whether the director is a significant customer or supplier of the company; whether the director is employed by a foundation or university that received significant grants or endowments from the company or its affiliates; and whether there are interlocking directorships.
- b. We vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

4. Stock Ownership Requirements

We vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.

5. Term of Office

We vote against shareholder proposals to limit the tenure of independent directors.

6. Director and Officer Indemnification and Liability Protection

- a. Subject to subparagraphs 2, 3, and 4 below, we vote for proposals concerning director and officer indemnification and liability protection.
- b. We vote for proposals to limit and against proposals to eliminate entirely director and officer liability for monetary damages for violating the duty of care.
- c. We vote against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.
- d. We vote for only those proposals that provide such expanded coverage noted in subparagraph 3 above in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was



found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, *and* (2) if only the director's legal expenses would be covered.

7. Director Qualifications

- a. We vote case-by-case on proposals that establish or amend director qualifications. Considerations include how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.
- b. We vote against shareholder proposals requiring two candidates per board seat.

**B. Proxy Contests**

1. Voting for Director Nominees in Contested Elections

We vote on a case-by-case basis in contested elections of directors. Considerations include: chronology of events leading up to the proxy contest; qualifications of director nominees (incumbents and dissidents); for incumbents, whether the board is comprised of a majority of outside directors; whether key committees (i.e.: nominating, audit, compensation) comprise solely of independent outsiders; discussion with the respective portfolio manager(s).

2. Reimburse Proxy Solicitation Expenses

We vote on a case-by-case basis on proposals to provide full reimbursement for dissidents waging a proxy contest. Considerations include: identity of persons who will pay solicitation expenses; cost of solicitation; percentage that will be paid to proxy solicitation firms.

**Table of Contents**

**C. Auditors**

1. Ratifying Auditors

We vote for proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position or there is reason to believe the independent auditor has not followed the highest level of ethical conduct. Specifically, we will vote to ratify auditors if the auditors only provide the company audit services and such other audit-related and non-audit services the provision of which will not cause such auditors to lose their independence under applicable laws, rules and regulations.

2. Financial Statements and Director and Auditor Reports

We generally vote for management proposals seeking approval of financial accounts and reports and the discharge of management and supervisory board members, unless there is concern about the past actions of the company's auditors or directors.

3. Remuneration of Auditors

We vote for proposals to authorize the board or an audit committee of the board to determine the remuneration of auditors, unless there is evidence of excessive compensation relative to the size and nature of the company.

4. Indemnification of Auditors

We vote against proposals to indemnify auditors.

**D. Proxy Contest Defenses**

1. Board Structure: Staggered vs. Annual Elections

- a. We vote against proposals to classify the board.
- b. We vote for proposals to repeal classified boards and to elect all directors annually.

2. Shareholder Ability to Remove Directors

- a. We vote against proposals that provide that directors may be removed *only* for cause.

- b. We vote for proposals to restore shareholder ability to remove directors with or without cause.
  - c. We vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies.
  - d. We vote for proposals that permit shareholders to elect directors to fill board vacancies.
3. Cumulative Voting
- a. If plurality voting is in place for uncontested director elections, we vote for proposals to permit or restore cumulative voting.
  - b. If majority voting is in place for uncontested director elections, we vote against cumulative voting.
  - c. If plurality voting is in place for uncontested director elections, and proposals to adopt both cumulative voting and majority voting are on the same slate, we vote for majority voting and against cumulative voting.

4. Majority Voting

We vote for non-binding and/or binding resolutions requesting that the board amend a company's by-laws to stipulate that directors need to be elected with an affirmative majority of the votes cast, provided that it does not conflict with the state law where the company is incorporated. In addition, all resolutions need to provide for a carve-out for a plurality vote standard when there are more nominees than board seats (i.e. contested election). In addition, ClearBridge strongly encourages companies to adopt a post-election director resignation policy setting guidelines for the company to follow to promptly address situations involving holdover directors.

**Table of Contents**

5. Shareholder Ability to Call Special Meetings

- a. We vote against proposals to restrict or prohibit shareholder ability to call special meetings.
- b. We vote for proposals that provide shareholders with the ability to call special meetings, taking into account a minimum ownership threshold of 10 percent (and investor ownership structure, depending on bylaws).

6. Shareholder Ability to Act by Written Consent

- a. We vote against proposals to restrict or prohibit shareholder ability to take action by written consent.
- b. We vote for proposals to allow or make easier shareholder action by written consent.

7. Shareholder Ability to Alter the Size of the Board

- a. We vote for proposals that seek to fix the size of the board.
- b. We vote against proposals that give management the ability to alter the size of the board without shareholder approval.

8. Advance Notice Proposals

We vote on advance notice proposals on a case-by-case basis, giving support to those proposals which allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible.

9. Amendment of By-Laws

- a. We vote against proposals giving the board exclusive authority to amend the by-laws.
- b. We vote for proposals giving the board the ability to amend the by-laws in addition to shareholders.

10. Article Amendments (not otherwise covered by ClearBridge Proxy Voting Policies and Procedures).

We review on a case-by-case basis all proposals seeking amendments to the articles of association.

We vote for article amendments if:

shareholder rights are protected;

there is negligible or positive impact on shareholder value;

management provides adequate reasons for the amendments; and

the company is required to do so by law (if applicable).

## **E. Tender Offer Defenses**

### **1. Poison Pills**

- a. We vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
- b. We vote on a case-by-case basis on shareholder proposals to redeem a company's poison pill. Considerations include: when the plan was originally adopted; financial condition of the company; terms of the poison pill.
- c. We vote on a case-by-case basis on management proposals to ratify a poison pill. Considerations include: sunset provision poison pill is submitted to shareholders for ratification or rejection every 2 to 3 years; shareholder redemption feature -10% of the shares may call a special meeting or seek a written consent to vote on rescinding the rights plan.

### **2. Fair Price Provisions**

- a. We vote for fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.
- b. We vote for shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.

**Table of Contents**

3. Greenmail

- a. We vote for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.
- b. We vote on a case-by-case basis on anti-greenmail proposals when they are bundled with other charter or bylaw amendments.

4. Unequal Voting Rights

- a. We vote against dual class exchange offers.
- b. We vote against dual class re-capitalization.

5. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

- a. We vote against management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.
- b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

6. Supermajority Shareholder Vote Requirement to Approve Mergers

- a. We vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.
- b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

7. White Squire Placements

We vote for shareholder proposals to require approval of blank check preferred stock issues.

**F. Miscellaneous Governance Provisions**

1. Confidential Voting

- a. We vote for shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: in the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.
- b. We vote for management proposals to adopt confidential voting subject to the proviso for contested elections set forth in sub-paragraph A.1 above.

2. Equal Access

We vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

3. Bundled Proposals

We vote on a case-by-case basis on bundled or conditioned proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests and therefore not in the best interests of the beneficial owners of accounts, we vote against the proposals. If the combined effect is positive, we support such proposals.

4. Shareholder Advisory Committees

We vote on a case-by-case basis on proposals to establish a shareholder advisory committee. Considerations include: rationale and cost to the firm to form such a committee. We generally vote against such proposals if the board and key nominating committees are comprised solely of independent/outside directors.

**Table of Contents**

5. Other Business

We vote for proposals that seek to bring forth other business matters.

6. Adjourn Meeting

We vote on a case-by-case basis on proposals that seek to adjourn a shareholder meeting in order to solicit additional votes.

7. Lack of Information

We vote against proposals if a company fails to provide shareholders with adequate information upon which to base their voting decision.

**G. Capital Structure**

1. Common Stock Authorization

- a. We vote on a case-by-case basis on proposals to increase the number of shares of common stock authorized for issue, except as described in paragraph 2 below.
- b. Subject to paragraph 3, below we vote for the approval requesting increases in authorized shares if the company meets certain criteria:

Company has already issued a certain percentage (i.e. greater than 50%) of the company's allotment.

The proposed increase is reasonable (i.e. less than 150% of current inventory) based on an analysis of the company's historical stock management or future growth outlook of the company.

- c. We vote on a case-by-case basis, based on the input of affected portfolio managers, if holding is greater than 1% of an account.

2. Stock Distributions: Splits and Dividends

We vote on a case-by-case basis on management proposals to increase common share authorization for a stock split, provided that the split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the split.



3. Reverse Stock Splits

We vote for management proposals to implement a reverse stock split, provided that the reverse split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the reverse split.

4. Blank Check Preferred Stock

- a. We vote against proposals to create, authorize or increase the number of shares with regard to blank check preferred stock with unspecified voting, conversion, dividend distribution and other rights.
- b. We vote for proposals to create ~~declawed~~ blank check preferred stock (stock that cannot be used as a takeover defense).
- c. We vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.
- d. We vote for proposals requiring a shareholder vote for blank check preferred stock issues.

5. Adjust Par Value of Common Stock

We vote for management proposals to reduce the par value of common stock.

6. Preemptive Rights

- a. We vote on a case-by-case basis for shareholder proposals seeking to establish them and consider the following factors:

Size of the Company.

**Table of Contents**

Characteristics of the size of the holding (holder owning more than 1% of the outstanding shares).

Percentage of the rights offering (rule of thumb less than 5%).

- b. We vote on a case-by-case basis for shareholder proposals seeking the elimination of pre-emptive rights.

7. Debt Restructuring

We vote on a case-by-case basis for proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. Generally, we approve proposals that facilitate debt restructuring.

8. Share Repurchase Programs

We vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

9. Dual-Class Stock

We vote for proposals to create a new class of nonvoting or sub voting common stock if:

It is intended for financing purposes with minimal or no dilution to current shareholders

It is not designed to preserve the voting power of an insider or significant shareholder

10. Issue Stock for Use with Rights Plan

We vote against proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

11. Debt Issuance Requests

When evaluating a debt issuance request, the issuing company's present financial situation is examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. A gearing level up to 100 percent is considered acceptable.

We vote for debt issuances for companies when the gearing level is between zero and 100 percent.

We view on a case-by-case basis proposals where the issuance of debt will result in the gearing level being greater than 100 percent. Any proposed debt issuance is compared to industry and market standards.

12. Financing Plans

We generally vote for the adopting of financing plans if we believe they are in the best economic interests of shareholders.

**H. Executive and Director Compensation**

In general, we vote for executive and director compensation plans, with the view that viable compensation programs reward the creation of stockholder wealth by having high payout sensitivity to increases in shareholder value. Certain factors, however, such as repricing underwater stock options without shareholder approval, would cause us to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary.

1. OBRA-Related Compensation Proposals

a. Amendments that Place a Cap on Annual Grant or Amend Administrative Features

We vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Internal Revenue Code.

b. Amendments to Added Performance-Based Goals

We vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of the Internal Revenue Code.

c. Amendments to Increase Shares and Retain Tax Deductions Under OBRA

**Table of Contents**

We vote for amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) the Internal Revenue Code.

d. Approval of Cash or Cash-and-Stock Bonus Plans

We vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of the Internal Revenue Code.

2. Expensing of Options

We vote for proposals to expense stock options on financial statements.

3. Index Stock Options

We vote on a case by case basis with respect to proposals seeking to index stock options. Considerations include whether the issuer expenses stock options on its financial statements and whether the issuer's compensation committee is comprised solely of independent directors.

4. Shareholder Proposals to Limit Executive and Director Pay

a. We vote on a case-by-case basis on all shareholder proposals that seek additional disclosure of executive and director pay information. Considerations include: cost and form of disclosure. We vote for such proposals if additional disclosure is relevant to shareholder's needs and would not put the company at a competitive disadvantage relative to its industry.

b. We vote on a case-by-case basis on all other shareholder proposals that seek to limit executive and director pay.

We have a policy of voting to reasonably limit the level of options and other equity-based compensation arrangements available to management to reasonably limit shareholder dilution and management compensation. For options and equity-based compensation arrangements, we vote FOR proposals or amendments that would result in the available awards being less than 10% of fully diluted outstanding shares (i.e. if the combined total of shares, common share equivalents and options available to be awarded under all current and proposed compensation plans is less than 10% of fully diluted shares). In the event the available awards exceed the 10% threshold, we would also consider the % relative to the common practice of its specific industry (e.g. technology firms). Other considerations would include, without limitation, the following:

Compensation committee comprised of independent outside directors

Maximum award limits

Repricing without shareholder approval prohibited

3-year average burn rate for company

Plan administrator has authority to accelerate the vesting of awards

Shares under the plan subject to performance criteria

5. Golden Parachutes

- a. We vote for shareholder proposals to have golden parachutes submitted for shareholder ratification.
- b. We vote on a case-by-case basis on all proposals to ratify or cancel golden parachutes. Considerations include: the amount should not exceed 3 times average base salary plus guaranteed benefits; golden parachute should be less attractive than an ongoing employment opportunity with the firm.

6. Golden Coffins

- a. We vote for shareholder proposals that request a company not to make any death benefit payments to senior executives' estates or beneficiaries, or pay premiums in respect to any life insurance policy covering a senior executive's life ( golden coffin ). We carve out benefits provided under a plan, policy or arrangement applicable to a broader group of employees, such as offering group universal life insurance.

**Table of Contents**

- b. We vote for shareholder proposals that request shareholder approval of survivor benefits for future agreements that, following the death of a senior executive, would obligate the company to make payments or awards not earned.

7. Anti Tax Gross-up Policy

- a. We vote for proposals that ask a company to adopt a policy whereby it will not make, or promise to make, any tax gross-up payment to its senior executives, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy; we also vote for proposals that ask management to put gross-up payments to a shareholder vote.
- b. We vote against proposals where a company will make, or promise to make, any tax gross-up payment to its senior executives without a shareholder vote, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy.

8. Employee Stock Ownership Plans (ESOPs)

We vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is excessive (i.e., generally greater than five percent of outstanding shares).

9. Employee Stock Purchase Plans

- a. We vote for qualified plans where all of the following apply:

The purchase price is at least 85 percent of fair market value

The offering period is 27 months or less

The number of shares allocated to the plan is five percent or less of outstanding shares

If the above do not apply, we vote on a case-by-case basis.

- b. We vote for non-qualified plans where all of the following apply:

## Edgar Filing: LMP CAPITAL & INCOME FUND INC. - Form N-CSR

All employees of the company are eligible to participate (excluding 5 percent or more beneficial owners)

There are limits on employee contribution (ex: fixed dollar amount)

There is a company matching contribution with a maximum of 25 percent of an employee's contribution

There is no discount on the stock price on purchase date (since there is a company match)

If the above do not apply, we vote against the non-qualified employee stock purchase plan.

### 10. 401(k) Employee Benefit Plans

We vote for proposals to implement a 401(k) savings plan for employees.

### 11. Stock Compensation Plans

- a. We vote for stock compensation plans which provide a dollar-for-dollar cash for stock exchange.
- b. We vote on a case-by-case basis for stock compensation plans which do not provide a dollar-for-dollar cash for stock exchange using a quantitative model.

### 12. Directors Retirement Plans

- a. We vote against retirement plans for non-employee directors.
- b. We vote for shareholder proposals to eliminate retirement plans for non-employee directors.

**Table of Contents**

13. Management Proposals to Reprice Options

We vote on a case-by-case basis on management proposals seeking approval to reprice options. Considerations include the following:

Historic trading patterns

Rationale for the repricing

Value-for-value exchange

Option vesting

Term of the option

Exercise price

Participation

14. Shareholder Proposals Recording Executive and Director Pay

- a. We vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.
- b. We vote against shareholder proposals requiring director fees be paid in stock only.
- c. We vote for shareholder proposals to put option repricing to a shareholder vote.
- d. We vote for shareholder proposals that call for a non-binding advisory vote on executive pay ( say-on-pay ). Company boards would adopt a policy giving shareholders the opportunity at each annual meeting to vote on an advisory resolution to ratify the compensation of the named executive officers set forth in the proxy statement s summary compensation table.
- e. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.



- f. We vote on a case-by-case basis for all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

15. Management Proposals On Executive Compensation

- a. For non-binding advisory votes on executive officer compensation, when management and the external service provider agree, we vote for the proposal. When management and the external service provider disagree, the proposal becomes a refer item. In the case of a Refer item, the factors under consideration will include the following:

Company performance over the last 1-, 3- and 5-year periods on a total shareholder return basis

Performance metrics for short- and long-term incentive programs

CEO pay relative to company performance (is there a misalignment)

Tax gross-ups to senior executives

Change-in-control arrangements

Presence of a clawback provision, ownership guidelines, or stock holding requirements for senior executives

- b. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

16. Stock Retention / Holding Period of Equity Awards

We vote on a case-by-case basis on shareholder proposals asking companies to adopt policies requiring senior executives to retain all or a significant (>50 percent) portion of their shares acquired through equity compensation plans, either:

While employed and/or for one to two years following the termination of their employment; or

For a substantial period following the lapse of all other vesting requirements for the award, with ratable release of a portion of the shares annually during the lock-up period

**Table of Contents**

The following factors will be taken into consideration:

Whether the company has any holding period, retention ratio, or named executive officer ownership requirements currently in place

Actual stock ownership of the company's named executive officers

Policies aimed at mitigating risk taking by senior executives

Pay practices at the company that we deem problematic

**I. State/Country of Incorporation**

1. Voting on State Takeover Statutes

- a. We vote for proposals to opt out of state freeze-out provisions
- b. We vote for proposals to opt out of state disgorgement provisions.

2. Voting on Re-incorporation Proposals

We vote on a case-by-case basis on proposals to change a company's state or country of incorporation. Considerations include: reasons for re-incorporation (i.e. financial, restructuring, etc); advantages/benefits for change (i.e. lower taxes); compare the differences in state/country laws governing the corporation.

3. Control Share Acquisition Provisions

- a. We vote against proposals to amend the charter to include control share acquisition provisions.
- b. We vote for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.
- c. We vote for proposals to restore voting rights to the control shares.

- d. We vote for proposals to opt out of control share cashout statutes.

## **J. Mergers and Corporate Restructuring**

### **1. Mergers and Acquisitions**

We vote on a case-by-case basis on mergers and acquisitions. Considerations include: benefits/advantages of the combined companies (i.e. economies of scale, operating synergies, increase in market power/share, etc ); offer price (premium or discount); change in the capital structure; impact on shareholder rights.

### **2. Corporate Restructuring**

We vote on a case-by-case basis on corporate restructuring proposals involving minority squeeze outs and leveraged buyouts. Considerations include: offer price, other alternatives/offers considered and review of fairness opinions.

### **3. Spin-offs**

We vote on a case-by-case basis on spin-offs. Considerations include the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

### **4. Asset Sales**

We vote on a case-by-case basis on asset sales. Considerations include the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

### **5. Liquidations**

We vote on a case-by-case basis on liquidations after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

### **6. Appraisal Rights**

We vote for proposals to restore, or provide shareholders with, rights of appraisal.

**Table of Contents**

7. Changing Corporate Name

We vote for proposals to change the corporate name, unless the proposed name change bears a negative connotation.

8. Conversion of Securities

We vote on a case-by-case basis on proposals regarding conversion of securities. Considerations include the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

9. Stakeholder Provisions

We vote against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

**K. Social and Environmental Issues**

1. In general we vote on a case-by-case basis on shareholder social and environmental proposals, on the basis that their impact on share value may be difficult to quantify. In most cases, however, we vote for disclosure reports that seek additional information, particularly when it appears the company has not adequately addressed shareholders' social and environmental concerns. In determining our vote on shareholder social and environmental proposals, we also analyze the following factors:
  - a. whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
  - b. the percentage of sales, assets and earnings affected;
  - c. the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
  - d. whether the issues presented should be dealt with through government or company-specific action;
  - e. whether the company has already responded in some appropriate manner to the request embodied in a proposal;
  - f. whether the company's analysis and voting recommendation to shareholders is persuasive;

- g. what other companies have done in response to the issue;
  - h. whether the proposal itself is well framed and reasonable;
  - i. whether implementation of the proposal would achieve the objectives sought in the proposal; and
  - j. whether the subject of the proposal is best left to the discretion of the board.
2. Among the social and environmental issues to which we apply this analysis are the following:
- a. Energy Efficiency and Resource Utilization
  - b. Environmental Impact and Climate Change
  - c. Human Rights and Impact on Communities of Corporate Activities
  - d. Equal Employment Opportunity and Non Discrimination
  - e. ILO Standards and Child/Slave Labor
  - f. Product Integrity and Marketing
  - g. Sustainability Reporting
  - h. Board Representation
  - i. Animal Welfare

**Table of Contents**

**L. Miscellaneous**

1. Charitable Contributions

We vote against proposals to eliminate, direct or otherwise restrict charitable contributions.

2. Political Contributions

In general, we vote on a case-by-case basis on shareholder proposals pertaining to political contributions. In determining our vote on political contribution proposals we consider, among other things, the following:

Does the company have a political contributions policy publicly available

How extensive is the disclosure on these documents

What oversight mechanisms the company has in place for approving/reviewing political contributions and expenditures

Does the company provide information on its trade association expenditures

Total amount of political expenditure by the company in recent history

3. Operational Items

- a. We vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.
- b. We vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.
- c. We vote for by-law or charter changes that are of a housekeeping nature (updates or corrections).
- d. We vote for management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable.

- e. We vote against shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.
- f. We vote against proposals to approve other business when it appears as voting item.

4. Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

the opening of the shareholder meeting

that the meeting has been convened under local regulatory requirements

the presence of a quorum

the agenda for the shareholder meeting

the election of the chair of the meeting

regulatory filings

the allowance of questions

the publication of minutes

the closing of the shareholder meeting

We generally vote for these and similar routine management proposals.

5. Allocation of Income and Dividends

We generally vote for management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and unusually small or large.

6. Stock (Scrip) Dividend Alternatives

- a. We vote for most stock (scrip) dividend proposals.



---

**Table of Contents**

- b. We vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

ClearBridge has determined that registered investment companies, particularly closed end investment companies, raise special policy issues making specific voting guidelines frequently inapplicable. To the extent that ClearBridge has proxy voting authority with respect to shares of registered investment companies, ClearBridge shall vote such shares in the best interest of client accounts and subject to the general fiduciary principles set forth herein without regard to the specific voting guidelines set forth in Section V. A. through L.

The voting policy guidelines set forth in Section V may be changed from time to time by ClearBridge in its sole discretion.

**VI. OTHER CONSIDERATIONS**

In certain situations, ClearBridge may determine not to vote proxies on behalf of a client because ClearBridge believes that the expected benefit to the client of voting shares is outweighed by countervailing considerations. Examples of situations in which ClearBridge may determine not to vote proxies on behalf of a client include:

**A. Share Blocking**

Proxy voting in certain countries requires share blocking. This means that shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (e.g. one week) with a designated depository. During the blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to client accounts by the designated depository. In deciding whether to vote shares subject to share blocking, ClearBridge will consider and weigh, based on the particular facts and circumstances, the expected benefit to clients of voting in relation to the detriment to clients of not being able to sell such shares during the applicable period.

**B Securities on Loan**

Certain clients of ClearBridge, such as an institutional client or a mutual fund for which ClearBridge acts as a sub-adviser, may engage in securities lending with respect to the securities in their accounts. ClearBridge typically does not direct or oversee such securities lending activities. To the extent feasible and practical under the circumstances, ClearBridge will request that the client recall shares that are on loan so that such shares can be voted if ClearBridge believes that the expected benefit to the client of voting such shares outweighs the detriment to the client of recalling such shares (e.g., foregone income). The ability to timely recall shares for proxy voting purposes typically is not entirely within the control of ClearBridge and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time for such shares to be voted may not be possible due to applicable proxy voting record dates and administrative considerations.

**VII. DISCLOSURE OF PROXY VOTING**

ClearBridge employees may not disclose to others outside of ClearBridge (including employees of other Legg Mason business units) how ClearBridge intends to vote a proxy absent prior approval from ClearBridge's General Counsel/Chief Compliance Officer, except that a ClearBridge investment professional may disclose to a third party

(other than an employee of another Legg Mason business unit) how s/he intends to vote without obtaining prior approval from ClearBridge's General Counsel/Chief Compliance Officer if (1) the disclosure is intended to facilitate a discussion of publicly available information by ClearBridge personnel with a representative of a company whose securities are the subject of the proxy, (2) the company's market capitalization exceeds \$1 billion and (3) ClearBridge has voting power with respect to less than 5% of the outstanding common stock of the company.

If a ClearBridge employee receives a request to disclose ClearBridge's proxy voting intentions to, or is otherwise contacted by, another person outside of ClearBridge (including an employee of another Legg Mason business unit) in connection with an upcoming proxy voting matter, he/she should immediately notify ClearBridge's General Counsel/Chief Compliance Officer.

If a portfolio manager wants to take a public stance with regards to a proxy, s/he must consult with ClearBridge's General Counsel/Chief Compliance Officer before making or issuing a public statement.

**Table of Contents**

**VIII.RECORDKEEPING AND OVERSIGHT**

ClearBridge shall maintain the following records relating to proxy voting:

a copy of these policies and procedures;

a copy of each proxy form (as voted);

a copy of each proxy solicitation (including proxy statements) and related materials with regard to each vote;

documentation relating to the identification and resolution of conflicts of interest;

any documents created by ClearBridge that were material to a proxy voting decision or that memorialized the basis for that decision; and

a copy of each written client request for information on how ClearBridge voted proxies on behalf of the client, and a copy of any written response by ClearBridge to any (written or oral) client request for information on how ClearBridge voted proxies on behalf of the requesting client.

Such records shall be maintained and preserved in an easily accessible place for a period of not less than six years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of the ClearBridge adviser.

To the extent that ClearBridge is authorized to vote proxies for a United States Registered Investment Company, ClearBridge shall maintain such records as are necessary to allow such fund to comply with its recordkeeping, reporting and disclosure obligations under applicable laws, rules and regulations.

In lieu of keeping copies of proxy statements, ClearBridge may rely on proxy statements filed on the EDGAR system as well as on third party records of proxy statements and votes cast if the third party provides an undertaking to provide the documents promptly upon request.

**Western Asset Management Company and Western Asset Management**

**Company Limited (together, Western Asset or the Firm ) Proxy Voting**

**Policy**

**Background**

As a fixed income only manager, the occasion to vote proxies is very rare. However, Western Asset Management Company ( WA or Western Asset ) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). Our authority to vote the

proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA may so consult and agree with each other) regarding the voting of any securities owned by its clients.

Western Asset's proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

**Table of Contents**

**Procedures**

**Responsibility and Oversight**

The Western Asset Legal and Compliance Department ( Legal and Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

**Client Authority**

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

**Proxy Gathering**

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

**Proxy Voting**

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

- a. Proxies are reviewed to determine accounts impacted.
- b. Impacted accounts are checked to confirm Western Asset voting authority.
- c. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)
- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or

permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

- e. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best

## Table of Contents

interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.

- f. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

## Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

## Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
- e. A proxy log including:
  - 1. Issuer name;
  - 2. Exchange ticker symbol of the issuer's shares to be voted;
  - 3. Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
  - 4. A brief identification of the matter voted on;

5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
  6. Whether a vote was cast on the matter;
  7. A record of how the vote was cast; and
  8. Whether the vote was cast for or against the recommendation of the issuer's management team.
- Records are maintained in an easily accessible place for five years, the first two in Western Asset's offices.

Disclosure

Part II of the WA Form ADV and the WAML Form ADV, each, contain a description of Western Asset's proxy policies. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.



## Table of Contents

### Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and
3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

### **Voting Guidelines**

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

#### **I. Board Approved Proposals**

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

##### **1. Matters relating to the Board of Directors**

Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

- a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

- b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.
- c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

**Table of Contents**

- d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

- a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.
- b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.
- d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

- a. Western Asset votes for proposals relating to the authorization of additional common stock.
- b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).
- c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

- 5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

- a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.
- b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

## **Table of Contents**

### 6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

- a. Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.
- b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

### II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.
2. Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.
3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

### III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios.
2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

### IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in non-U.S. issuers—i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

## **Table of Contents**

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.
2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.
3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.
4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

## **Retirement Accounts**

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor ( DOL ) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary. Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL's position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (a) the right to vote proxies has been reserved to a named fiduciary of the client, and (b) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy voting guidelines provided by the client.

**Table of Contents****ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.****(a)(1):**

<b>NAME AND ADDRESS</b>	<b>LENGTH OF TIME SERVED</b>	<b>PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS</b>
S. Kenneth Leech  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2014	Responsible for the day-to-day management with other members of the Fund's portfolio management team; Chief Investment Officer of Western Asset from 1998 to 2008 and since 2014; Senior Advisor/Chief Investment Officer Emeritus of Western Asset from 2008-2013; Co- Chief Investment Officer of Western Asset from 2013-2014.
Michael C. Buchanan  Western Asset  385 East Colorado Blvd.  Pasadena, CA  91101	Since 2010	Responsible for the day-to-day management with other members of the Fund's portfolio management team; employed by Western Asset Management as an investment professional for at least the past five years; Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset Management
Ryan Brist  Western Asset  385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Responsible for the day-to-day management with other members of the Fund's portfolio management team; Head of U.S. Investment Grade Credit of Western Asset since 2009; Chief Investment Officer and Portfolio Manager at Logan Circle Partners, L.P. from 2007-2009; Co-Chief Investment Officer and Senior Portfolio Manager at Delaware Investment Advisors from 2000-2007
Mark Lindbloom  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Co-portfolio manager of the fund; Portfolio Manager with Western Asset since 2006. Formerly, a Managing Director of Citigroup Asset Management and its predecessors from 1986-2006.
Chia-Liang Lian  Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2015	Responsible for the day-to-day management with other members of the Fund's portfolio management team; employed by Western Asset Management as an investment professional since 2011; Prior to joining Western Asset, Mr. Lian spent approximately six years with the Pacific Investment Management Company (PIMCO), where he served as Head of Emerging Asia Portfolio Management.
Mark McAllister  Clearbridge	Since 2011	Co-portfolio manager of the fund; Managing Director and Senior Portfolio Manager with ClearBridge; Mr. McAllister has 30 years of investment industry experience.

620 Eighth Avenue

New York, NY 10018

Peter Vanderlee

Since 2009

Co-portfolio manager of the fund; Managing Director and Portfolio Manager with ClearBridge Advisors. Mr. Vanderlee has 18 years of investment management experience and thirteen years of related investment experience.

Clearbridge

620 Eighth Avenue

New York, NY 10018



**Table of Contents**

Tatiana Thibodeau                      Since 2011      Co-portfolio manager of the fund; Director and Portfolio Manager with ClearBridge Advisors. Ms. Thibodeau has 18 years of investment management experience.

Clearbridge  
620 Eighth Avenue

New York, NY 10018

**(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL**

The following tables set forth certain additional information with respect to the fund's portfolio managers for the fund. Unless noted otherwise, all information is provided as of November 30, 2017.

**Other Accounts Managed by Portfolio Managers**

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories:

registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Name of PM	Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Advisory Fee is	Assets Managed for which Advisory Fee is
				Performance- Based	Performance- Based
S. Kenneth Leech	Other Registered Investment Companies	94	\$149.7 billion	None	None
	Other Pooled Vehicles	266	\$86.8 billion	6	\$1.7 billion
	Other Accounts	601	\$202.8 billion	31	\$12.3 billion
Ryan Brist	Other Registered Investment Companies	5	\$3.6 billion	None	None
	Other Pooled Vehicles	20	\$11.1 billion	None	None
	Other Accounts	72	\$27.3 billion	3	\$749 million

**Table of Contents**

Michael Buchanan	Other Registered Investment Companies	40	\$49.9 billion	None	None
	Other Pooled Vehicles	80	\$35.3 billion	3	\$1.1 billion
	Other Accounts	243	\$81.9 billion	16	\$6.8 billion
Mark Lindbloom	Other Registered Investment Companies	18	\$50.2 billion	None	None
	Other Pooled Vehicles	20	\$12.8 billion	None	None
	Other Accounts	143	\$38.0 billion	7	\$3.8 billion
Chia-Liang Lian	Other Registered Investment Companies	23	\$42.9 billion	None	None
	Other Pooled Vehicles	43	\$15.2 billion	1	\$130 million
	Other Accounts	153	\$31.0 billion	10	\$4.5 billion
Mark McAllister	Other Registered Investment Companies	2	\$550 million	None	None
	Other Pooled Vehicles	4	\$1.2 billion	None	None
	Other Accounts	1,959	\$530 million	None	None
Tatiana Thibodeau	Other Registered Investment Companies	None	None	None	None
	Other Pooled Vehicles	None	None	None	None
	Other Accounts	None	None	None	None
Peter Vanderlee	Other Registered Investment Companies	9	\$11.9 billion	None	None
	Other Pooled Vehicles	6	\$1.7 billion	None	None
	Other Accounts	34,823	\$10.9 billion	None	None

*The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company ( Western Asset ). Mr. Leech is involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.*

---

**Table of Contents****(a)(3): Investment Professional Compensation (Western Asset)**

With respect to the compensation of the investment professionals, Western Asset's compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser's employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional's job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is an investment professional's investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund's Prospectus to which the fund's average annual total returns are compared or, if none, the benchmark set forth in the fund's annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure an investment professional's pre-tax investment performance against other benchmarks, as it determines appropriate. Because investment professionals are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser's business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

**Potential Conflicts of Interest**

The subadviser has adopted compliance policies and procedures to address a wide range of potential conflicts of interest that could directly impact client portfolios. For example, potential conflicts of interest may arise in connection with the management of multiple portfolios (including portfolios managed in a personal capacity). These could include potential conflicts of interest related to the knowledge and timing of a portfolio's trades, investment opportunities and broker selection. Portfolio managers are privy to the size, timing, and possible market impact of a portfolio's trades.

It is possible that an investment opportunity may be suitable for both a portfolio and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the portfolio and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by a portfolio and another account. A conflict may arise where the portfolio manager may have an incentive to treat an account preferentially as compared to a portfolio because the account pays a performance-based fee or the portfolio manager, the subadviser or an affiliate has an interest in the account. The subadviser has adopted procedures for allocation of portfolio transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. Eligible accounts that can participate in a trade generally share the same price on a pro-rata allocation basis, taking into account differences based on factors such as cash availability, investment restrictions and guidelines, and portfolio composition versus strategy.

## **Table of Contents**

With respect to securities transactions, the subadviser determines which broker or dealer to use to execute each order, consistent with their duty to seek best execution of the transaction. However, with respect to certain other accounts (such as pooled investment vehicles that are not registered investment companies and other accounts managed for organizations and individuals), the subadviser may be limited by the client with respect to the selection of brokers or dealers or may be instructed to direct trades through a particular broker or dealer. In these cases, trades for a portfolio in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of a portfolio or the other account(s) involved. Additionally, the management of multiple portfolios and/or other accounts may result in a portfolio manager devoting unequal time and attention to the management of each portfolio and/or other account. The subadviser's team approach to portfolio management and block trading approach seeks to limit this potential risk.

The subadviser also maintains a gift and entertainment policy to address the potential for a business contact to give gifts or host entertainment events that may influence the business judgment of an employee. Employees are permitted to retain gifts of only a nominal value and are required to make reimbursement for entertainment events above a certain value. All gifts (except those of a de minimis value) and entertainment events that are given or sponsored by a business contact are required to be reported in a gift and entertainment log which is reviewed on a regular basis for possible issues.

Employees of the subadviser have access to transactions and holdings information regarding client accounts and the subadviser's overall trading activities. This information represents a potential conflict of interest because employees may take advantage of this information as they trade in their personal accounts. Accordingly, the subadviser maintains a Code of Ethics that is compliant with Rule 17j-1 under the Investment Company Act of 1940, as amended, and Rule 204A-1 under the Investment Advisers Act of 1940, to address personal trading. In addition, the Code of Ethics seeks to establish broader principles of good conduct and fiduciary responsibility in all aspects of the subadviser's business. The Code of Ethics is administered by the Legal and Compliance Department and monitored through the subadviser's compliance monitoring program.

The subadviser may also face other potential conflicts of interest with respect to managing client assets, and the description above is not a complete description of every conflict of interest that could be deemed to exist. The subadviser also maintains a compliance monitoring program and engages independent auditors to conduct a SOC1/ISAE 3402 audit on an annual basis. These steps help to ensure that potential conflicts of interest have been addressed.

### ***Portfolio Manager Compensation (ClearBridge)***

ClearBridge's portfolio managers participate in a competitive compensation program that is designed to attract and retain outstanding investment professionals and closely align the interests of its investment professionals with those of its clients and overall firm results. The total compensation program includes a significant incentive component that rewards high performance standards, integrity, and collaboration consistent with the firm's values. Portfolio manager compensation is reviewed and modified each year as appropriate to reflect changes in the market and to ensure the continued alignment with the goals stated above. ClearBridge's portfolio managers and other investment professionals receive a combination of base compensation and discretionary compensation, comprising a cash incentive award and deferred incentive plans described below.

## Table of Contents

*Base salary compensation.* Base salary is fixed and primarily determined based on market factors and the experience and responsibilities of the investment professional within the firm.

*Discretionary compensation.* In addition to base compensation managers may receive discretionary compensation.

Discretionary compensation can include:

### Cash Incentive Award

ClearBridge's Deferred Incentive Plan (CDIP) a mandatory program that typically defers 15% of discretionary year-end compensation into ClearBridge managed products. For portfolio managers, one-third of this deferral tracks the performance of their primary managed product, one-third tracks the performance of a composite portfolio of the firm's new products and one-third can be elected to track the performance of one or more of ClearBridge managed funds. Consequently, portfolio managers can have two-thirds of their CDIP award tracking the performance of their primary managed product.

For centralized research analysts, two-thirds of their deferral is elected to track the performance of one or more of ClearBridge managed funds, while one-third tracks the performance of the new product composite.

ClearBridge then makes a company investment in the proprietary managed funds equal to the deferral amounts by fund. This investment is a company asset held on the balance sheet and paid out to the employees in shares subject to vesting requirements.

Legg Mason Restricted Stock Deferral a mandatory program that typically defers 5% of discretionary year-end compensation into Legg Mason restricted stock. The award is paid out to employees in shares subject to vesting requirements.

Legg Mason Restricted Stock and Stock Option Grants a discretionary program that may be utilized as part of the total compensation program. These special grants reward and recognize significant contributions to our clients, shareholders and the firm and aid in retaining key talent.

Several factors are considered by ClearBridge Senior Management when determining discretionary compensation for portfolio managers. These include but are not limited to:

*Investment performance.* A portfolio manager's compensation is linked to the pre-tax investment performance of the fund/accounts managed by the portfolio manager. Investment performance is calculated for 1-, 3-, and 5-year periods measured against the applicable product benchmark (e.g., a securities index and, with respect to a fund, the benchmark set forth in the fund's Prospectus) and relative to applicable industry peer groups. The greatest weight is generally placed on 3- and 5-year performance.

Appropriate risk positioning that is consistent with ClearBridge's investment philosophy and the Investment Committee/CIO approach to generation of alpha;

Overall firm profitability and performance;

Amount and nature of assets managed by the portfolio manager;

Contributions for asset retention, gathering and client satisfaction;

Contribution to mentoring, coaching and/or supervising;

Contribution and communication of investment ideas in ClearBridge's Investment Committee meetings and on a day to day basis;

Market compensation survey research by independent third parties

*Potential Conflicts of Interest*

Potential conflicts of interest may arise when the fund's portfolio manager also has day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the fund's portfolio manager.

The manager, the subadviser and the fund have adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for the manager or the subadviser and the

---

**Table of Contents**

individuals that each employs. For example, the manager and the subadviser each seek to minimize the effects of competing interests for the time and attention of the portfolio manager by assigning the portfolio manager to manage funds and accounts that share a similar investment style. The manager and the subadviser have also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the manager, the subadviser and the fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear. These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Investment Opportunities.* If a portfolio manager identifies an investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

*Selection of Broker/Dealers.* Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide brokerage and research services (as those terms are defined in Section 28(e) of the 1934 Act), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the sub-adviser determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts managed. For this reason, the subadviser has formed a brokerage committee that reviews, among other things, the allocation of brokerage to broker/dealers, best execution and soft dollar usage.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the manager's management fee and/or the portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the manager and/or its affiliates have interests. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

**Table of Contents****(a)(4): Portfolio Manager Securities Ownership**

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of November 30, 2017.

<b>Portfolio Manager(s)</b>	<b>Dollar Range of Portfolio Securities Beneficially Owned</b>
S. Kenneth Leech	A
Ryan Brist	A
Michael Lindbloom	A
Michael Buchanan	A
Michael McAllister	C
Peter Vanderlee	E
Tatiana Thibodeau	A
Chia-Liang Lian	A

Dollar Range ownership is as follows:

A: none

B: \$1 - \$10,000

C: 10,001 - \$50,000

D: \$50,001 - \$100,000

E: \$100,001 - \$500,000

F: \$500,001 - \$1 million

G: over \$1 million

**ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not applicable.

**ITEM 11. CONTROLS AND PROCEDURES.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment



Company Act of 1940, as amended (the 1940 Act ) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting

**Table of Contents**

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

**LMP Capital and Income Fund Inc.**

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: January 29, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: January 29, 2018

By: /s/ Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer

Date: January 29, 2018