

WESTERN ASSET VARIABLE RATE STRATEGIC FUND INC.

Form SC 13D/A

August 18, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549 SCHEDULE 13D/A

(Amendment No. 3)

Under the Securities Exchange Act of 1934 Western Asset Variable Rate Strategic Fund Inc. (GFY)

(Name of Issuer) Common Stock

(Title of Class of Securities) 957667108

(CUSIP Number) George W. Karpus, President
Karpus Management, Inc.,
d/b/a Karpus Investment Management
183 Sully's Trail
Pittsford, New York 14534
(585) 586-4680

**(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)** August 18, 2008

Edgar Filing: WESTERN ASSET VARIABLE RATE STRATEGIC FUND INC. - Form SC 13D/A

(Date of Event which Requires Filing of this Statement) If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D/A, and is filing this schedule because of 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. 127

CUSIP No. 957667108

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only). Karpus Management, Inc., d/b/a Karpus Investment Management I.D. #16-1290558

2. Check the Appropriate Box if a Member of a Group (See Instructions)

- (a) 127
(b) 32X
-

3. SEC Use Only

4. Source of Funds (See Instructions) AF

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) N/A

6. Citizenship or Place of Organization New York

Number of Shares Beneficially Owned by Each reporting Person With:

7. Sole Voting Power 779,626 **8. Shared Voting Power** N/A **9. Sole Dispositive Power** 779,626 **10. Shared Dispositive Power** N/A

11. Aggregate Amount Beneficially Owned by Each Reporting Person 779,626

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) N/A

13. Percent of Class Represented by Amount in Row (11) 9.37%

14. Type of Reporting Person (See Instructions) IA

Edgar Filing: WESTERN ASSET VARIABLE RATE STRATEGIC FUND INC. - Form SC 13D/A

The following constitutes Amendment No. 3 ("Amendment No. 3") to the Schedule 13D filed by the undersigned. This Amendment amends the original Schedule 13D as specifically set forth.

Item 3. Source and Amount of Funds or Other Considerations. KIM, an independent investment advisor, has accumulated 779,626 shares of GFY on behalf of accounts that are managed by KIM (the Accounts) under limited powers of attorney, which represents 9.37% of the outstanding shares. All funds that have been utilized in making such purchases are from such Accounts. **Item 5. Interest in Securities of the Issuer.** (a) As of the date of this Report, KIM represents beneficial ownership of 779,626 shares or 9.37% of the outstanding shares. George W. Karpus presently owns 950 shares. Mr. Karpus purchased the shares on August 7, 2007 at \$16.77 (630 shares), June 3, 2008 at \$15.10 (152 shares), June 4, 2008 at \$15.09 (51 shares) and on June 5, 2008 at \$15.06 (117 shares). Karpus Investment Management, Inc. presently owns 2,000 shares. Karpus Investment Management Profit Sharing Plan purchased shares on May 23, 2006 at \$16.99 (775 shares), May 24, 2007 at \$17.00 (325 shares) and on November 6, 2007 at \$16.45 (900 shares). None of the other principals of KIM presently own shares of GFY. (c) Open market purchases for the last 60 days for the Accounts. There have been no dispositions and no acquisitions, other than by such open market purchases:

<u>Date</u>	<u>Shares</u>	<u>Price Per Share</u>
6/24/2008	16,500	\$14.97
6/27/2008	3	\$15.06
7/9/2008	(1,750)	\$14.70
7/15/2008	3,200	\$14.22
7/17/2008	85	\$14.33
7/21/2008	2,300	\$14.36
7/22/2008	2,300	\$14.40
7/23/2008	(1,400)	\$14.41
7/24/2008	385	\$14.37
7/25/2008	2,703	\$14.38

Edgar Filing: WESTERN ASSET VARIABLE RATE STRATEGIC FUND INC. - Form SC 13D/A

The Accounts have the right to receive all dividends from, and any proceeds from the sale of the Shares. None of the Accounts has an interest in Shares constituting more than 5% of the Shares outstanding. **Item 6. Contracts, Arrangements, Understandings, or Relationships with Respect to Securities of the Issuer.** Except as described above, there are no contracts, arrangements, understandings or relationships of any kind among the Principals and KIM and between any of them and any other person with respect to any of the GFY securities. **Item 7. Materials to be Filed as Exhibits.** As is indicated in Item 4, above, KIM has purchased Shares of GFY for the Accounts for investment purposes. However, KIM has reserved the right to contact management with regard to concerns that they have with respect to the Fund, including letters to the Board and/or other communications with fund management. Accordingly, KIM sent a proposal to the Fund on August 18, 2008, a copy of which is attached as Exhibit 1.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete, and correct.

Karpus Management, Inc.

By: /s/

Name: Cody B. Bartlett Jr., CFA

Title: Managing Director of Investments

Date: August 18, 2008

EXHIBIT 1

**Letter to the Fund
Transmitted July 10, 2008**

August 18, 2008

Robert I. Frenkel, Secretary and Chief Legal Officer
Western Asset Variable Rate Strategic Fund Inc.
c/o Legg Mason
300 First Stamford Place, 2nd Floor
Stamford, Connecticut 06902

Re: Western Asset Variable Rate Strategic Fund Inc.

Mr. Frenkel:

Karpus Management, Inc., d/b/a Karpus Investment Management ("Karpus") represents beneficial ownership of 779,626 shares or 9.37% of the outstanding common shares of the Western Asset Variable Rate Strategic Fund Inc. ("GFY" or the "Fund"). Karpus intends to present the following proposal at the 2009 annual meeting, anticipated to be held in January 2009:

PROPOSAL

The investment management agreement between the Fund and Legg Mason Partners Fund Advisor, LLC and the sub-advisory agreement between the Fund and Western Asset Management Company shall be terminated.

SUPPORTING STATEMENT

In 2005, our Fund's investment manager asked for and received approval of a new management agreement and new sub-advisory agreement in conjunction with the transfer of Citigroup's asset management business. At that point in time, shareholders trusted the Fund and allowed for the transfer of management of a fund just over 1 year old. Since the announcement of the approval of the new agreements (12/19/2005-07/31/2008) the Fund has traded at an average daily discount to net asset value of -11.01%. The discount on GFY has consistently been among the widest of all taxable closed-end bond funds. Indeed, the discount for comparable closed-end taxable bond funds for this time period was only -5.0%, placing our Fund's discount significantly wider than the average during this time period. The market tends to place a fair price on an asset-in this case a share of a closed-end fund. Perhaps the explanation for why GFY has traded at such a persistently wide discount is that its NAV performance has been disappointing for a long period of time. From its inception (10/27/2004) through 7/31/2008, the NAV total return on our fund was 6.81%, which places the fund squarely in the bottom quartile as compared to other taxable closed end bond funds for this time period. (as categorized by Thomas J. Herzfeld Advisors Inc). Based on market price, an investor who purchased GFY at the IPO would have experienced a loss of 6.71% through July 31, 2008. Furthermore, the fund has significantly underperformed its benchmarks as stated in its 3/31 filing. Since its inception, the Merrill Lynch Constant Maturity 3-Month LIBOR Index ("ML Benchmark") and the Lehman Brothers US Aggregate Index ("Lehman Benchmark") have returned 17.46% and 15.9%, respectively, through July 31, 2008. It seems clear that the poor performance of the Fund is directly responsible for the persistently wide discount. In addition to historically poor performance, on a year-to-date basis, the Fund's recent net asset value and price performance have been especially poor. Specifically, GFY's total net asset value return was -7.99% through July 31, whereas the stated ML and Lehman benchmarks returned 2.25% and 1.04%, respectively. This most recent poor performance appears highly attributable to the Fund's holdings in mortgage related securities and provides further indications to us that the Fund's investment manager and sub-adviser must be terminated. As closed-end fund shareholders, poor NAV performance combined with a wide discount to net asset value is the most harmful combination possible. To address these issues, we believe that a change to a new investment advisor and new sub-advisor is needed.

END OF PROPOSAL

As is required by Rule 14a-8, KIM has attached a letter from U. S. Bank N.A., as well as a written statement from the "record" holder of the referenced shares, verifying that the referenced shares were continuously and beneficially owned, and had a market value of \$2,000 or more, for at least a one year period prior to the date of the submittal of this Proposal. KIM intends to hold the shares referenced in the enclosed attachments through the date of the Meeting. Please advise us immediately if this notice is deficient in any way or any additional information is required so that we may promptly provide it in order to cure any deficiency.

Sincerely,

/s/

Cody B. Bartlett Jr., CFA
Managing Director of Investments