

WESTERN ASSET VARIABLE RATE STRATEGIC FUND INC.

Form N-CSRS

May 22, 2015

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 811-21609

Western Asset Variable Rate Strategic 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: September 30

Date of reporting period: March 31, 2015

ITEM 1. REPORT TO STOCKHOLDERS.

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

Semi-Annual Report

March 31, 2015

WESTERN ASSET

VARIABLE RATE

STRATEGIC FUND INC. (GFY)

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

What's inside

Letter from the chairman	II
Investment commentary	III
Fund at a glance	1
Spread duration	2
Effective duration	3
Schedule of investments	4
Statement of assets and liabilities	18
Statement of operations	19
Statements of changes in net assets	20
Statement of cash flows	21
Financial highlights	22
Notes to financial statements	23
Board approval of management and subadvisory agreements	40
Additional shareholder information	46
Dividend reinvestment plan	47

Fund objective

The Fund's investment objective is to maintain a high level of current income.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the semi-annual report of Western Asset Variable Rate Strategic Fund Inc. for the six-month reporting period ended March 31, 2015. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

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. 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,

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Kenneth D. Fuller

Chairman, President and Chief Executive Officer

April 24, 2015

II Western Asset Variable Rate Strategic Fund Inc.

Investment commentary

Economic review

The U.S. economy continued to expand, but the pace sharply decelerated during the six months ended March 31, 2015 (the reporting period). The U.S. Department of Commerce reported that third quarter 2014 U.S. gross domestic product (GDP) growth was 5.0%, its strongest reading since the third quarter of 2003. This was driven by contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment and government spending. However, fourth quarter 2014 GDP growth was a modest 2.2%. The deceleration in growth primarily reflected an upturn in imports, a downturn in federal government spending and moderating nonresidential fixed investment. After the reporting period ended, the U.S. Department of Commerce reported that its initial estimate for first quarter 2015 GDP growth was 0.2%. Slower growth was attributed to a number of factors, including a deceleration in PCE and downturns in exports, nonresidential fixed investment and state and local government spending.

Activity in the U.S. manufacturing sector also moderated during the reporting period. Based on the Institute for Supply Management's Purchasing Managers Index (PMI), U.S. manufacturing expanded during all six months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 57.9 in October 2014, the PMI generally decelerated over much of the reporting period and the PMI was 51.5 in March 2015.

The labor market was largely a tailwind for the economy during the reporting period. When the period began, unemployment was 5.7%, as reported by the U.S. Department of Labor. After ticking up to 5.8% in November 2014, unemployment generally declined during the remainder of the reporting period and was 5.5% in March 2015, equaling its lowest level since May 2008.

Investment commentary (cont d)

Market review

Q. How did the Federal Reserve Board (Fedⁱⁱ) respond to the economic environment?

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As it has since December 2008, the Fed kept the federal funds rate^{iv} at a historically low range between zero and 0.25%. The Fed also ended its asset purchase program that was announced in December 2012. In December 2014, the Fed said that it can be patient in beginning to normalize the stance of monetary policy. Finally, at its meeting that ended on April 29, 2015, after the reporting period ended, the Fed said, economic growth slowed during the winter months, in part reflecting transitory factors. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Q. Did Treasury yields trend higher or lower during the six months ended March 31, 2015?

A. Both short- and long-term Treasury yields declined during the reporting period. When the reporting period began, the yield on the two-year Treasury was 0.58%. It was as high as 0.73% on several occasions in December 2014 and again on March 6, 2015, and fell as low as 0.34% on October 15, 2014, before ending the period at 0.56%. The yield on the ten-year Treasury began the period at 2.52%, its peak for the six months ended March 31, 2015. The yield on the ten-year Treasury was as low as 1.68% in late January/early February 2015 and concluded the period at 1.94%.

Q. What factors impacted the spread sectors (non-Treasuries) during the reporting period?

A. The spread sectors largely posted positive returns during the reporting period. Performance fluctuated with investor sentiment given uncertainties regarding future Fed monetary policy, concerns over global growth and geopolitical issues. The overall bond market, as measured by the Barclays U.S. Aggregate Index^v, gained 3.43% during the six months ended March 31, 2015.

Q. How did the high-yield bond market perform over the six months ended March 31, 2015?

A. The U.S. high-yield bond market, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index^x, returned 1.50% for the six months ended March 31, 2015. High yield bonds were volatile during the reporting period, and posted positive returns in October 2014, as well as in January and February 2015, while declining in November and December 2014, and March 2015. While the underlying fundamentals in the high-yield market remained generally solid and defaults were well below their long-term average, the asset class was dragged down primarily due to sharply falling oil prices.

Q. How did the emerging markets debt asset class perform over the reporting period?

A. The JPMorgan Emerging Markets Bond Index Global (EMBI Globalⁱⁱ) returned 0.38% during the six months ended March 31, 2015. While the asset class rose during much of the reporting period, those gains were largely offset by a sharp decline in December 2014. This setback was triggered by a number of factors, including

expectations for future Fed rate hikes, concerns over global growth, declining oil prices and weak investor demand.

Performance review

For the six months ended March 31, 2015, Western Asset Variable Rate Strategic Fund Inc. returned -1.08% based on its net asset value (NAVⁱⁱⁱ) and -0.55% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the BofA Merrill Lynch USD LIBOR 3-Month Constant Maturity Index^{ix} returned 0.12% over the same time frame. The Lipper Global Income Closed-End Funds Category Average^s returned -1.23% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.44 per share. As of March 31, 2015, the Fund estimates that all of the distributions were sourced from net investment income.* The performance table shows the Fund's six-month total return based on its NAV and market price as of March 31, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of March 31, 2015 (unaudited)

	6-Month Total Return**
Price Per Share	
\$18.21 (NAV)	-1.08%
\$16.55 (Market Price)	-0.55%

All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

**** 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, if any, at NAV.

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

Looking for additional information?

The Fund is traded under the symbol GFY and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XGFYX 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.

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.

*These estimates are not for tax purposes. The Fund will issue a Form 1099 with final composition of the distributions for tax purposes after year-end. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, please refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of our website, www.lmcef.com.

Investment commentary (cont d)

Thank you for your investment in Western Asset Variable Rate Strategic 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,

Kenneth D. Fuller

Chairman, President and

Chief Executive Officer

April 24, 2015

***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 the Fund will achieve its investment objective. Common shares at any point in time may be worth less than when invested, even after taking into account the reinvestment of Fund dividends and distributions. The Fund invests in fixed-income securities which are subject to credit risks, including the risk of nonpayment of scheduled interest or loan payments, which could lower the Fund's value. The Fund's investments are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, the value of a fixed-income portfolio generally declines, reducing the value of the Fund. However, the Fund can normally be expected to have less significant interest rate related fluctuations in its NAV than investment companies investing primarily in fixed-rate fixed-income securities (other than money market funds) because the floating or variable rate securities in which the Fund invests float in response to changes in prevailing market interest rates. The Fund may invest in high-yield and foreign securities, including emerging markets, which involve risks beyond those inherent solely in higher rated and domestic investments. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. Investing in foreign securities is subject to certain risks typically not associated with domestic investing, such as currency fluctuations and changes in political conditions. These risks are magnified in emerging or developing markets. Derivatives, such as options or futures, can be illiquid and hard to value, especially in declining markets. A small investment in certain derivatives may have a potentially large impact on Fund performance.*

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

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

- ⁱ Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ⁱⁱ The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the U.S. manufacturing sector.
- ⁱⁱⁱ The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- ^{iv} 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.
- ^v The 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.
- ^{vi} The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- ^{vii} The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- ^{viii} 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.
- ^{ix} The BofA Merrill Lynch USD LIBOR 3-Month Constant Maturity Index is based on the assumed purchase of a synthetic instrument having three months to maturity and with a coupon equal to the closing quote for three-month LIBOR. That issue is sold the following day (priced at a yield equal to the current day closing three-month LIBOR rate) and is rolled into a new three-month instrument. The Index, therefore, will always have a constant maturity equal to exactly three months.
- ^x Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended March 31, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 14 funds in the Fund's Lipper category.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of March 31, 2015 and September 30, 2014 and does not include derivatives, such as futures contracts, written options and swap contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.
Represents less than 0.1%.

Spread duration (unaudited)

Economic exposure March 31, 2015

Total Spread Duration

GFY 2.10 years

Benchmark 0.00 years

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

ABS	Asset-Backed Securities
EM	Emerging Markets
GFY	Western Asset Variable Rate Strategic Fund Inc.
HY	High Yield
IG Credit	Investment-Grade Credit
MBS	Mortgage-Backed Securities
Benchmark	BofA Merrill Lynch USD LIBOR 3-Month Constant Maturity Index

Effective duration (unaudited)

Interest rate exposure March 31, 2015

Total Effective Duration
GFY 0.69 years
Benchmark 0.25 years

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

ABS	Asset-Backed Securities
EM	Emerging Markets
GFY	Western Asset Variable Rate Strategic Fund Inc.
HY	High Yield
IG Credit	Investment-Grade Credit
MBS	Mortgage-Backed Securities
Benchmark	BofA Merrill Lynch USD LIBOR 3-Month Constant Maturity Index

Schedule of investments (unaudited)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations 38.9%				
Adjustable Rate Mortgage Trust, 2005-11 5A1	0.444%	2/25/36	195,885	\$ 163,579 ^(a)
Banc of America Funding Corp., 2003-1 A1	6.000%	5/20/33	86,237	90,539
Banc of America Funding Corp., 2004-B 6A1	2.118%	12/20/34	425,860	303,838 ^(a)
Banc of America Funding Corp., 2005-E 8A1	2.122%	6/20/35	466,136	305,260 ^(a)
Banc of America Funding Corp., 2015-R2 4A1	0.333%	9/29/36	1,050,955	996,200 ^{(a)(b)}
Banc of America Funding Corp., 2015-R3 3A2	0.881%	4/29/47	1,460,000	1,292,246 ^{(a)(b)}
Bayview Commercial Asset Trust, 2006-1A B2	1.874%	4/25/36	635,032	460,509 ^{(a)(b)}
Bear Stearns Alt-A Trust, 2004-03 A1	0.814%	4/25/34	503,864	492,616 ^(a)
Bear Stearns Alt-A Trust, 2004-10 1A3	1.174%	9/25/34	64,968	65,077 ^(a)
Bear Stearns ARM Trust, 2004-08 11A1	2.669%	11/25/34	326,913	328,072 ^(a)
Bear Stearns Asset-Backed Securities Trust, 2005-AC3 1A1	0.674%	7/25/35	574,447	515,595 ^(a)
Commercial Mortgage Trust, 2014-BBG A	0.975%	3/15/29	260,000	255,598 ^{(a)(b)}
Connecticut Avenue Securities, 2013-C01 M2	5.424%	10/25/23	300,000	328,690 ^(a)
Countrywide Alternative Loan Trust, 2004-6CB A	0.464%	5/25/34	548,170	533,832 ^(a)
Countrywide Alternative Loan Trust, 2005-24 4A1	0.406%	7/20/35	1,002,468	882,812 ^(a)
Countrywide Alternative Loan Trust, 2007-23CB A7	0.574%	9/25/37	740,819	487,394 ^(a)
Countrywide Alternative Loan Trust, 2008-2R 3A1	6.000%	8/25/37	651,382	518,879
Countrywide Home Loans, 2004-20 2A1	2.473%	9/25/34	497,040	381,441 ^(a)
Countrywide Home Loans, 2004-R1 2A	6.500%	11/25/34	78,000	82,190 ^(b)
Countrywide Home Loans, 2005-HYB9 3A1A	2.313%	2/20/36	604,939	572,801 ^(a)
Countrywide Home Loans, 2005-R2 2A1	7.000%	6/25/35	188,665	205,175 ^(b)
Countrywide Home Loans, 2005-R3 AF	0.574%	9/25/35	319,394	289,156 ^{(a)(b)}
Countrywide Home Loans, 2006-R2 AF1	0.594%	7/25/36	164,237	150,684 ^{(a)(b)}
Countrywide Home Loans, Mortgage Pass-Through Trust, 2004-29 2A1	0.504%	2/25/35	53,995	49,279 ^(a)
Countrywide Home Loans, Mortgage Pass-Through Trust, 2005-R1 1AF1	0.534%	3/25/35	268,896	241,785 ^{(a)(b)}
Deutsche Mortgage Securities Inc., 2004-4 3AR1	2.720%	6/25/34	278,207	263,802 ^(a)
Downey Savings & Loan Association Mortgage Loan Trust, 2005-AR5 2A1A	0.508%	9/19/45	621,290	458,900 ^(a)
Downey Savings & Loan Association Mortgage Loan Trust, 2006-AR1 1A1A	1.041%	3/19/46	276,329	214,486 ^(a)
Federal Home Loan Mortgage Corp. (FHLMC), 2638 DI, IO, PAC	5.000%	5/15/23	290,039	13,005
Federal National Mortgage Association (FNMA), 2013-25 BI, IO	3.000%	3/25/33	13,577,630	1,806,612
Federal National Mortgage Association (FNMA), 2013-62 AI, IO	3.000%	6/25/33	8,244,534	1,227,533
Federal National Mortgage Association (FNMA), STRIPS, 347 2, IO	5.000%	1/25/34	1,510,292	301,522
Federal National Mortgage Association (FNMA), STRIPS, IO, 339 30	5.500%	8/25/18	408,320	24,760 ^(a)

See Notes to Financial Statements.

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations continued				
Government National Mortgage Association (GNMA), 2010-H03 FA	0.722%	3/20/60	157,654	\$ 158,125 (a)(c)
Government National Mortgage Association (GNMA), 2010-H10 FC	1.172%	5/20/60	136,379	139,014 (a)(c)
Government National Mortgage Association (GNMA), 2010-H11 FA	1.172%	6/20/60	728,909	744,497 (a)(c)
Government National Mortgage Association (GNMA), 2011-H01 AF	0.621%	11/20/60	1,324,140	1,324,728 (a)(c)
Government National Mortgage Association (GNMA), 2011-H03 FA	0.671%	1/20/61	152,810	153,166 (a)(c)
Government National Mortgage Association (GNMA), 2011-H05 FA	0.671%	12/20/60	297,806	298,471 (a)(c)
Government National Mortgage Association (GNMA), 2011-H05 FB	0.671%	12/20/60	278,282	278,970 (a)(c)
Government National Mortgage Association (GNMA), 2011-H06 FA	0.621%	2/20/61	667,690	667,971 (a)(c)
Government National Mortgage Association (GNMA), 2011-H07 FA	0.671%	2/20/61	445,702	446,612 (a)(c)
Government National Mortgage Association (GNMA), 2011-H08 FD	0.671%	2/20/61	444,745	445,775 (a)(c)
Government National Mortgage Association (GNMA), 2011-H09 AF	0.671%	3/20/61	798,160	800,062 (a)(c)
Government National Mortgage Association (GNMA), 2011-H11 FB	0.671%	4/20/61	161,810	162,205 (a)(c)
Government National Mortgage Association (GNMA), 2012-H18 NA	0.691%	8/20/62	728,524	731,713 (a)(c)
Government National Mortgage Association (GNMA), 2012-H23 SA	0.701%	10/20/62	580,049	581,615 (a)(c)
Government National Mortgage Association (GNMA), 2012-H23 WA	0.691%	10/20/62	792,585	793,677 (a)(c)
Government National Mortgage Association (GNMA), 2013-082 IT, IO, PAC	3.500%	5/20/43	2,742,021	536,829
Granite Mortgages PLC, 2003-2 1A3	0.757%	7/20/43	20,583	20,542 (a)(d)
Granite Mortgages PLC, 2004-1 2A1	0.590%	3/20/44	37,510	37,398 (a)
Granite Mortgages PLC, 2004-3 2A1	0.550%	9/20/44	12,762	12,719 (a)
GSMPS Mortgage Loan Trust, 2005-LT1 A1	0.634%	2/25/35	101,006	96,107 (a)(b)
GSMPS Mortgage Loan Trust, 2005-RP2 1AF	0.524%	3/25/35	706,453	621,637 (a)(b)
GSMPS Mortgage Loan Trust, 2006-RP2 1AF1	0.574%	4/25/36	349,618	297,312 (a)(b)
GSMSC Resecuritization Trust, 2014	0.308%	4/26/37	1,230,000	1,035,660 (a)(b)(e)
HarborView Mortgage Loan Trust, 2004-10 4A	2.558%	1/19/35	267,317	267,356 (a)
HarborView Mortgage Loan Trust, 2005-14 3A1A	2.647%	12/19/35	148,847	132,420 (a)
IMPAC Secured Assets Corp., 2005-2 A1	0.494%	3/25/36	1,622,589	1,172,851 (a)

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations continued				
Indymac Index Mortgage Loan Trust, 2004-AR07 A2	1.031%	9/25/34	209,031	\$ 189,232 ^(a)
Indymac Index Mortgage Loan Trust, 2004-AR08 2A2A	0.974%	11/25/34	60,996	55,596 ^(a)
Indymac Index Mortgage Loan Trust, 2004-AR12 A1	0.954%	12/25/34	253,135	214,428 ^(a)
Indymac Index Mortgage Loan Trust, 2005-AR21 4A1	2.694%	10/25/35	395,753	343,487 ^(a)
JPMorgan Chase Commercial Mortgage Securities Trust, 2006-LDP9 AJ	5.411%	5/15/47	1,210,000	1,049,297
JPMorgan Chase Commercial Mortgage Securities Trust, 2007-CB18 AJ	5.502%	6/12/47	690,000	693,967 ^(a)
JPMorgan Mortgage Trust, 2005-A3 3A4	2.239%	6/25/35	309,151	308,817 ^(a)
Luminent Mortgage Trust, 2006-2 A1A	0.374%	2/25/46	734,611	555,022 ^(a)
MASTR ARM Trust, 2003-6 2A1	2.166%	12/25/33	94,521	95,086 ^(a)
MASTR Reperforming Loan Trust, 2005-2 1A1F	0.524%	5/25/35	1,050,864	871,822 ^{(a)(b)}
MASTR Reperforming Loan Trust, 2006-2 1A1	4.715%	5/25/36	385,553	365,138 ^{(a)(b)}
MASTR Reperforming Loan Trust, 2006-2 2A1	2.993%	5/25/36	151,140	134,032 ^{(a)(b)}
Morgan Stanley Capital I Trust, 2007-HQ11 AJ	5.508%	2/12/44	660,000	690,236 ^(a)
Morgan Stanley Mortgage Loan Trust, 2006-3AR 1A3	0.434%	3/25/36	263,244	203,213 ^(a)
Morgan Stanley Mortgage Loan Trust, 2006-6AR 2A	2.655%	5/25/36	769,446	645,813 ^(a)
Mortgage IT Trust, 2005-3 A1	0.474%	8/25/35	505,208	484,997 ^(a)
Nomura Resecuritization Trust, 2015-1R 2A2	0.477%	10/26/36	1,070,000	1,007,555 ^{(a)(b)}
Prime Mortgage Trust, 2006-DR1 2A2	6.000%	5/25/35	565,172	560,933 ^(b)
Residential Accredit Loans Inc., 2004-QA2 A2	0.614%	6/25/34	347,945	343,066 ^(a)
Residential Accredit Loans Inc., 2005-QO4 2A1	0.454%	12/25/45	353,527	256,540 ^(a)
Residential Asset Mortgage Products Inc., 2003-SL1 M1	7.359%	4/25/31	607,787	518,882 ^(a)
Sequoia Mortgage Trust, 2004-12 A2	0.634%	1/20/35	880,945	815,570 ^(a)
Structured Agency Credit Risk Debt Notes, 2013-DN1 M2	7.324%	7/25/23	420,000	503,068 ^(a)
Structured Agency Credit Risk Debt Notes, 2014-HQ1 M2	2.674%	8/25/24	910,000	917,599 ^(a)
Structured ARM Loan Trust, 2004-09XS A	0.544%	7/25/34	555,693	538,253 ^(a)
Structured ARM Loan Trust, 2004-20 1A1	2.443%	1/25/35	196,748	183,872 ^(a)
Structured Asset Mortgage Investments Inc., 2004-AR3 1A1	0.778%	7/19/34	407,011	393,168 ^(a)
Structured Asset Mortgage Investments Inc., 2006-AR2 A1	0.404%	2/25/36	756,224	607,787 ^(a)
Structured Asset Mortgage Investments Inc., 2006-AR3 11A1	0.384%	4/25/36	317,393	233,218 ^(a)
Structured Asset Securities Corp., 1998-02 M1	1.274%	2/25/28	5,221	5,806 ^(a)
Structured Asset Securities Corp., 1998-03 M1	1.174%	3/25/28	56,743	55,492 ^(a)
Structured Asset Securities Corp., 1998-08 M1	1.114%	8/25/28	125,367	124,254 ^(a)
Structured Asset Securities Corp., 2005-RF1 A	0.524%	3/25/35	202,846	171,803 ^{(a)(b)}
Structured Asset Securities Corp., 2005-RF2 A	0.524%	4/25/35	221,568	185,076 ^{(a)(b)}
Structured Asset Securities Corp., 2005-RF3 2A	3.398%	6/25/35	3,153,292	2,841,434 ^{(a)(b)}
WaMu Mortgage Pass-Through Certificates, 2005-AR13 A1C3	0.664%	10/25/45	247,961	209,449 ^(a)

See Notes to Financial Statements.

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations continued				
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2003-AR8	0.534%	10/25/45	581,418	\$ 521,837 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2004-AR11	2.426%	10/25/34	182,066	181,780 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2004-AR12 A2A	0.578%	10/25/44	156,848	152,205 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2005-10 4CB3	0.774%	12/25/35	662,840	526,858 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2005-4 CB9	0.574%	6/25/35	791,684	606,899 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2005-AR01 A2A3	0.574%	1/25/45	125,722	120,026 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2005-AR08 2AB3	0.534%	7/25/45	945,093	874,727 ^(a)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2006-AR02 A1A	1.068%	4/25/46	242,879	192,150 ^(a)
Wells Fargo Mortgage Backed Securities Trust, 2004-DD 1A1	2.615%	1/25/35	431,838	432,704 ^(a)
Total Collateralized Mortgage Obligations (Cost \$46,644,389)				47,243,493
Asset-Backed Securities 28.7%				
ABFS Mortgage Loan Trust, 2002-3 M1	5.902%	9/15/33	730,429	588,979
Academic Loan Funding Trust, 2013-1A A	0.974%	12/26/44	485,662	484,926 ^{(a)(b)}
Access Financial Manufactured Housing Contract Trust, 1995-1 B1	7.650%	5/15/21	229,478	137,325
Access Group Inc., 2005-B A2	0.486%	7/25/22	89,797	89,428 ^(a)
ALM Loan Funding, 2013-10A B	2.853%	1/15/25	250,000	246,067 ^{(a)(b)}
ALM Loan Funding, 2015-12A A1	1.749%	4/16/27	250,000	250,000 ^{(a)(b)}
Ameriquest Mortgage Securities Inc., 2002-AR1 M1	1.242%	9/25/32	155,758	142,786 ^(a)
Ameriquest Mortgage Securities Inc., 2005-R1 M1	0.849%	3/25/35	368,088	367,528 ^(a)
Apidos CDO, 2013-16A B	3.057%	1/19/25	400,000	394,794 ^{(a)(b)}
Argent Securities Inc., 2003-W3 M1	1.296%	9/25/33	31,825	31,057 ^(a)
Argent Securities Inc., 2003-W8 M1	1.221%	12/25/33	504,484	474,118 ^(a)
Bear Stearns Asset-Backed Securities Trust, 2001-3 A1	1.074%	10/27/32	175,298	168,767 ^(a)
Bear Stearns Asset-Backed Securities Trust, 2007-SD1 1A2A	6.000%	10/25/36	720,605	608,648
Carlyle Global Market Strategies, 2013-4A C	3.053%	10/15/25	250,000	247,366 ^{(a)(b)}
Chase Funding Mortgage Loan Asset-Backed Certificates, 2004-1 1A7	3.985%	11/25/33	352,084	362,573
Citibank Credit Card Issuance Trust, 2014-A3 A3	0.375%	5/9/18	760,000	760,090 ^(a)
Citigroup Mortgage Loan Trust Inc., 2005-OPT1 M1	0.804%	2/25/35	244,419	236,693 ^(a)
Citigroup Mortgage Loan Trust Inc., 2005-OPT4 M2	0.604%	7/25/35	443,781	440,751 ^(a)
Countrywide Asset-Backed Certificates, 2003-5 AF5	5.591%	2/25/34	631,145	665,372

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Asset-Backed Securities continued				
Countrywide Asset-Backed Certificates, 2004-6 1A1	0.714%	12/25/34	1,096,850	\$ 1,044,213 ^(a)
Countrywide Asset-Backed Certificates, 2004-BC1 M1	0.924%	2/25/34	115,002	110,498 ^(a)
Countrywide Asset-Backed Certificates, 2007-13 2A1	1.074%	10/25/47	1,033,473	927,018 ^(a)
Countrywide Home Equity Loan Trust, 2006-HW 2A1B	0.305%	11/15/36	664,257	586,814 ^(a)
Credit-Based Asset Servicing and Securitization LLC, 2007-SP1 A4	6.020%	12/25/37	567,718	598,217 ^(b)
Dryden Senior Loan Fund, 2014-31A C	3.107%	4/18/26	500,000	493,844 ^{(a)(b)}
EMC Mortgage Loan Trust, 2004-C A1	0.724%	3/25/31	54,415	53,727 ^{(a)(b)}
First Franklin Mortgage Loan Asset-Backed Certificates, 2005-FFH4 2A4	0.521%	12/25/35	44,380	44,475 ^(a)
Flatiron CLO Ltd., 2013-1A B	3.007%	1/17/26	500,000	488,874 ^{(a)(b)}
Greenpoint Home Equity Loan Trust, 2004-4 A	0.735%	8/15/30	213,181	199,474 ^(a)
Greenpoint Manufactured Housing, 1999-3 1A7	7.270%	6/15/29	181,255	183,068
GSAA Trust, 2006-5 2A3	0.444%	3/25/36	1,246,261	857,627 ^(a)
GSAMP Trust, 2004-OPT B1	2.571%	11/25/34	66,205	42,775 ^(a)
GSAMP Trust, 2004-SEA2 M2	1.424%	3/25/34	1,000,000	925,769 ^(a)
GSRPM Mortgage Loan Trust, 2007-1 A	0.574%	10/25/46	372,098	311,303 ^{(a)(b)}
Hertz Vehicle Financing LLC, 2013-1A A1	1.120%	8/25/17	580,000	580,193 ^(b)
Home Equity Mortgage Trust, 2006-2 2A1	0.334%	7/25/36	411,088	185,526 ^(a)
Indymac Seconds Asset Backed Trust, 2006-A A	0.434%	6/25/36	2,355,595	551,487 ^(a)
IXIS Real Estate Capital Trust, 2005-HE4 A3	0.514%	2/25/36	62,019	61,205 ^(a)
Lehman XS Trust, (Structured Asset Securities Corp.), 2005-1 2A2	1.672%	7/25/35	739,470	714,053 ^(a)
Lehman XS Trust, 2005-5N 3A1A	0.474%	11/25/35	273,297	247,069 ^(a)
Lehman XS Trust, 2006-8 2A4A	0.431%	6/25/36	1,909,190	1,147,272 ^(a)
Long Beach Mortgage Loan Trust, 2001-3 M1	0.999%	9/25/31	193,806	177,663 ^(a)
Long Beach Mortgage Loan Trust, 2002-1 2M1	1.299%	5/25/32	195,716	189,438 ^(a)
Madison Park Funding Ltd., 2013-11A C	3.007%	10/23/25	250,000	245,860 ^{(a)(b)}
MASTR Asset-Backed Securities Trust, 2005-AB1 A5A	5.712%	11/25/35	720,000	441,429
MASTR Specialized Loan Trust, 2007-1 A	0.544%	1/25/37	429,665	283,686 ^{(a)(b)}
Morgan Stanley Capital Inc., 2003-NC9 M	1.299%	9/25/33	747,709	727,377 ^(a)
Morgan Stanley Capital Inc., 2004-HE8 A7	1.234%	9/25/34	74,135	69,987 ^(a)
Morgan Stanley Capital Inc., 2004-HES M2	2.049%	6/25/34	1,188,484	1,098,645 ^(a)
National Collegiate Student Loan Trust, 2006-1 A3	0.364%	5/25/26	221,745	220,876 ^(a)
Neuberger Berman CLO Ltd., 2013-15A C	3.017%	10/15/25	400,000	391,425 ^{(a)(b)}
New Century Home Equity Loan Trust, 2004-3 M1	1.104%	11/25/34	638,898	594,753 ^(a)
Nissan Master Owner Trust Receivables, 2013-A A	0.475%	2/15/18	565,000	565,046 ^(a)
Novastar Home Equity Loan, 2004-1 M3	0.999%	6/25/34	690,000	658,961 ^(a)
Novastar Home Equity Loan, 2004-4 M3	1.254%	3/25/35	332,516	333,560 ^(a)

See Notes to Financial Statements.

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Asset-Backed Securities – continued				
Option One Mortgage Loan Trust, 2005-1 A4	0.974%	2/25/35	109,030	\$ 107,210 ^(a)
Origen Manufactured Housing, 2007-A A2	2.478%	4/15/37	566,306	501,374 ^(a)
Palmer Square CLO Ltd., 2013-2A B	3.307%	10/17/25	250,000	247,359 ^{(a)(b)}
Park Place Securities Inc., 2004-WHQ2 M2	1.119%	2/25/35	384,841	384,559 ^(a)
Park Place Securities Inc., 2005-WHQ2 M2	0.634%	5/25/35	1,110,000	1,053,502 ^(a)
Pennsylvania Higher Education Assistance Agency, 2013-3A A	0.924%	11/25/42	452,119	453,045 ^{(a)(b)}
People's Choice Home Loan Securities Trust, 2004-2 M1	1.074%	10/25/34	154,356	153,320 ^(a)
RAAC Series, 2006-RP2 A	0.424%	2/25/37	336,426	333,369 ^{(a)(b)}
RAAC Series, 2006-RP3 A	0.444%	5/25/36	665,201	603,934 ^{(a)(b)}
RAAC Series, 2007-RP3 M1	0.974%	10/25/46	1,200,000	489,418 ^{(a)(b)}
Renaissance Home Equity Loan Trust, 2003-1 A	1.034%	6/25/33	629,111	598,512 ^(a)
Renaissance Home Equity Loan Trust, 2003-2 A	1.051%	8/25/33	94,245	89,321 ^(a)
Renaissance Net Interest Margin Trust, 2007-2 N	8.353%	6/25/37	128,633	1 ^{(b)(f)(g)}
Residential Asset Mortgage Products Inc., 2003-RS7 MIII	1.296%	8/25/33	37,542	33,491 ^(a)
Residential Asset Mortgage Products Inc., 2003-RZ4 A7	4.790%	6/25/33	30,865	31,738
Residential Asset Mortgage Products Inc., 2004-RZ3 MII2	1.824%	9/25/34	247,738	233,334 ^(a)
Residential Funding Mortgage Securities Trust, 2006-HSA3 A	0.304%	5/25/36	1,016,896	912,237 ^(a)
SACO I Trust, 2006-3 A3	0.634%	4/25/36	262,720	412,281 ^(a)
SACO I Trust, 2006-4 A1	0.514%	3/25/36	270,183	376,753 ^(a)
Security National Mortgage Loan Trust, 2007-1A 2A	0.524%	4/25/37	1,654,776	1,388,331 ^{(a)(b)}
SLM Student Loan Trust, 2003-01 A5C	1.021%	12/15/32	368,271	367,888 ^{(a)(b)}
SLM Student Loan Trust, 2003-04 A5A	1.021%	3/15/33	154,210	154,002 ^{(a)(b)}
SLM Student Loan Trust, 2003-04 A5E	1.021%	3/15/33	409,408	408,855 ^{(a)(b)}
SLM Student Loan Trust, 2004-3 A5	0.426%	7/25/23	108,731	108,352 ^(a)
SLM Student Loan Trust, 2012-E A1	0.925%	10/16/23	179,711	180,198 ^{(a)(b)}
SMB Private Education Loan Trust, 2014-A A1	0.675%	9/15/21	164,971	164,930 ^{(a)(b)}
Soundview Home Equity Loan Trust, 2005-3 M2	0.954%	6/25/35	51,723	51,587 ^(a)
Structured Asset Investment Loan Trust, 2004-9 M4	2.124%	10/25/34	117,619	88,966 ^(a)
Structured Asset Securities Corp., 2004-6XS A5B	5.550%	3/25/34	388,234	401,885
Structured Asset Securities Corp., 2005-SC1 1A1	0.444%	5/25/31	554,819	324,535 ^{(a)(b)}
Structured Asset Securities Corp., 2005-WF1 A3	0.834%	2/25/35	151,749	151,202 ^(a)
Structured Asset Securities Corp., 2006-GEL1 A2	0.524%	11/25/35	103,162	102,294 ^{(a)(b)}
Structured Asset Securities Corp., 2007-BC3 2A3	0.354%	5/25/47	290,000	191,032 ^(a)
Venture CDO Ltd., 2014-16A A3L	3.003%	4/15/26	500,000	487,181 ^{(a)(b)}
Whitehorse Ltd., 2013-1A A3L	3.172%	11/24/25	200,000	197,917 ^{(a)(b)}
Total Asset-Backed Securities (Cost \$33,804,339)				34,834,388

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Convertible Bonds & Notes 0.0%				
Telecommunication Services 0.0%				
<i>Diversified Telecommunication Services 0.0%</i>				
Axtel SAB de CV, Senior Secured Notes (Cost \$30,110)	9.000%	1/31/20	214,800 MXN	\$ 25,348 (b)
Corporate Bonds & Notes 31.5%				
Consumer Discretionary 3.9%				
<i>Automobiles 2.3%</i>				
Ford Motor Credit Co., LLC, Senior Notes	2.750%	5/15/15	590,000	591,319 (c)
Ford Motor Credit Co., LLC, Senior Notes	5.875%	8/2/21	250,000	294,697
General Motors Co., Senior Notes	3.500%	10/2/18	400,000	411,824
General Motors Financial Co. Inc., Senior Notes	4.375%	9/25/21	400,000	425,336
General Motors Financial Co. Inc., Senior Notes	4.250%	5/15/23	1,000,000	1,038,460
<i>Total Automobiles</i>				2,761,636
<i>Diversified Consumer Services 0.0%</i>				
Service Corp. International, Senior Notes	7.625%	10/1/18	30,000	34,838
<i>Hotels, Restaurants & Leisure 0.4%</i>				
Choctaw Resort Development Enterprise, Senior Notes	7.250%	11/15/19	209,000	209,523 (b)
MGM Resorts International, Senior Notes	7.625%	1/15/17	230,000	246,962
<i>Total Hotels, Restaurants & Leisure</i>				456,485
<i>Media 1.2%</i>				
Comcast Corp., Senior Notes	6.500%	1/15/17	400,000	438,870 (c)
DISH DBS Corp., Senior Notes	6.750%	6/1/21	400,000	427,000
DISH DBS Corp., Senior Notes	5.875%	11/15/24	190,000	190,713
Time Warner Cable Inc., Senior Notes	4.125%	2/15/21	400,000	430,756
<i>Total Media</i>				1,487,339
Total Consumer Discretionary				4,740,298
Consumer Staples 1.1%				
<i>Beverages 0.6%</i>				
Suntory Holdings Ltd., Notes	1.650%	9/29/17	770,000	773,586 (b)
<i>Food Products 0.1%</i>				
Kraft Foods Group Inc., Senior Notes	5.375%	2/10/20	104,000	118,376
<i>Tobacco 0.4%</i>				
Altria Group Inc., Senior Notes	9.250%	8/6/19	350,000	449,496
Total Consumer Staples				1,341,458
Energy 6.0%				
<i>Energy Equipment & Services 0.2%</i>				
Key Energy Services Inc., Senior Notes	6.750%	3/1/21	350,000	227,500
Parker Drilling Co., Senior Notes	6.750%	7/15/22	60,000	47,850
<i>Total Energy Equipment & Services</i>				275,350

See Notes to Financial Statements.

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Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas & Consumable Fuels 5.8%</i>				
Anadarko Petroleum Corp., Senior Notes	6.375%	9/15/17	380,000	\$ 423,042
BP Capital Markets PLC, Senior Notes	3.125%	10/1/15	530,000	536,770 ^(c)
Chesapeake Energy Corp., Senior Notes	7.250%	12/15/18	285,000	309,225
Chesapeake Energy Corp., Senior Notes	6.125%	2/15/21	150,000	152,625
Continental Resources Inc., Senior Notes	5.000%	9/15/22	500,000	493,750
Ecopetrol SA, Senior Notes	4.250%	9/18/18	240,000	252,000
Enterprise Products Operating LLC, Junior Subordinated Notes	8.375%	8/1/66	80,000	84,326 ^(a)
Enterprise Products Operating LLP, Subordinated Notes	7.034%	1/15/68	120,000	129,817 ^(a)
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	210,000	217,310 ^(d)
LUKOIL International Finance BV, Senior Notes	7.250%	11/5/19	240,000	245,976 ^(d)
MarkWest Energy Partners LP/MarkWest Energy Finance Corp., Senior Notes	6.250%	6/15/22	500,000	525,000
Petrobras Global Finance BV, Senior Notes	3.151%	3/17/20	190,000	164,350 ^(a)
Petrobras International Finance Co., Senior Notes	3.875%	1/27/16	250,000	245,845
Petrobras International Finance Co., Senior Notes	5.750%	1/20/20	780,000	725,462
Petroleos Mexicanos, Senior Notes	3.125%	1/23/19	120,000	122,700
Range Resources Corp., Senior Subordinated Notes	6.750%	8/1/20	550,000	573,375
Rosneft Finance SA, Senior Notes	7.875%	3/13/18	200,000	203,016 ^(d)
Shell International Finance BV, Senior Notes	3.100%	6/28/15	280,000	281,802
Sinopec Group Overseas Development 2014 Ltd., Senior Notes	1.172%	4/10/19	650,000	649,362 ^{(a)(b)}
Whiting Canadian Holding Co. ULC, Senior Notes	8.125%	12/1/19	400,000	421,000
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	229,000	274,713
<i>Total Oil, Gas & Consumable Fuels</i>				<i>7,031,466</i>
Total Energy				7,306,816
Financials 13.7%				
<i>Banks 8.5%</i>				
Bank of America Corp., Junior Subordinated Notes	6.250%	9/5/24	650,000	665,438 ^{(a)(h)}
Bank of America Corp., Senior Notes	3.750%	7/12/16	600,000	618,643 ^(c)
Bank of America Corp., Subordinated Notes	4.000%	1/22/25	660,000	666,682
Barclays Bank PLC, Senior Notes	5.000%	9/22/16	200,000	211,450
BBVA US Senior SAU, Senior Notes	4.664%	10/9/15	200,000	203,870
Citigroup Inc., Senior Notes	6.125%	11/21/17	800,000	889,415 ^(c)
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA of Netherlands, Junior Subordinated Notes	11.000%	6/30/19	260,000	335,400 ^{(a)(b)(h)}
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA of Netherlands, Senior Notes	3.375%	1/19/17	190,000	198,105
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	620,000	736,002 ^{(a)(b)(h)}
Intesa Sanpaolo SpA, Senior Notes	3.625%	8/12/15	140,000	141,328 ^(b)

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Banks continued</i>				
JPMorgan Chase & Co., Junior Subordinated Bonds	5.150%	5/1/23	1,320,000	\$ 1,291,950 (a)(h)
M&T Bank Corp., Junior Subordinated Stock	6.450%	2/15/24	1,190,000	1,291,150 (a)(h)
PNC Financial Services Group Inc., Junior Subordinated	4.850%	6/1/23	990,000	967,725 (a)(h)
Wachovia Capital Trust III, Junior Subordinated Bonds	5.570%	5/18/15	1,420,000	1,409,208 (a)(h)
Wells Fargo & Co., Senior Notes	3.676%	6/15/16	250,000	258,939
Wells Fargo & Co., Senior Notes	2.100%	5/8/17	460,000	470,172 (c)
<i>Total Banks</i>				<i>10,355,477</i>
<i>Capital Markets 2.0%</i>				
Bank of New York Mellon Corp., Junior Subordinated Notes	4.500%	6/20/23	1,340,000	1,273,000 (a)(h)
Goldman Sachs Capital III, Preferred Securities	4.000%	5/18/15	950,000	744,407 (a)(h)
Goldman Sachs Group Inc., Senior Notes	6.250%	9/1/17	300,000	332,868
<i>Total Capital Markets</i>				<i>2,350,275</i>
<i>Consumer Finance 1.1%</i>				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	225,000	268,875
American Express Co., Senior Notes	2.650%	12/2/22	517,000	514,887
HSBC Finance Corp., Senior Notes	6.676%	1/15/21	500,000	594,442
<i>Total Consumer Finance</i>				<i>1,378,204</i>
<i>Diversified Financial Services 1.9%</i>				
General Electric Capital Corp., Junior Subordinated Bonds	5.250%	6/15/23	1,200,000	1,239,000 (a)(h)
General Electric Capital Corp., Senior Notes	2.950%	5/9/16	550,000	564,024 (c)
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	490,000	542,675
<i>Total Diversified Financial Services</i>				<i>2,345,699</i>
<i>Thriffs & Mortgage Finance 0.2%</i>				
Santander Holdings USA Inc., Senior Notes	4.625%	4/19/16	240,000	248,628
Total Financials				16,678,283
<i>Health Care 1.0%</i>				
<i>Health Care Equipment & Supplies 0.7%</i>				
Becton, Dickinson & Co., Senior Notes	3.734%	12/15/24	300,000	314,605
Medtronic Inc., Senior Notes	3.500%	3/15/25	440,000	460,552 (b)
<i>Total Health Care Equipment & Supplies</i>				<i>775,157</i>
<i>Pharmaceuticals 0.3%</i>				
Actavis Funding SCS, Senior Notes	3.450%	3/15/22	400,000	410,328
Total Health Care				1,185,485
<i>Industrials 1.0%</i>				
<i>Airlines 0.1%</i>				
Air 2 US, Notes	8.027%	10/1/19	42,966	45,974 (b)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	45,435	52,704
<i>Total Airlines</i>				<i>98,678</i>

See Notes to Financial Statements.

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Western Asset Variable Rate Strategic Fund Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
<i>Commercial Services & Supplies 0.2%</i>				
Waste Management Inc., Senior Notes	2.600%	9/1/16	300,000	\$ 305,595
<i>Construction & Engineering 0.6%</i>				
Brundage-Bone Concrete Pumping Inc., Senior Secured Notes	10.375%	9/1/21	200,000	207,750 (b)
Odebrecht Finance Ltd., Senior Notes	4.375%	4/25/25	700,000	586,250 (b)
<i>Total Construction & Engineering</i>				794,000
<i>Industrial Conglomerates 0.1%</i>				
Leucadia National Corp., Senior Notes	8.125%	9/15/15	80,000	82,445
Total Industrials				1,280,718
<i>Information Technology 0.3%</i>				
<i>Electronic Equipment, Instruments & Components 0.2%</i>				
Interface Security Systems Holdings Inc./Interface Security Systems LLC, Senior Secured Notes	9.250%	1/15/18	260,000	262,600
<i>IT Services 0.1%</i>				
First Data Corp., Senior Secured Notes	6.750%	11/1/20	65,000	69,388 (b)
Total Information Technology				331,988
<i>Materials 1.5%</i>				
<i>Chemicals 0.1%</i>				
Jac Holding Corp., Senior Secured Notes	11.500%	10/1/19	150,000	154,875 (b)
<i>Construction Materials 0.6%</i>				
Cemex SAB de CV, Senior Secured Notes	5.003%	10/15/18	650,000	680,550 (a)(b)
<i>Metals & Mining 0.8%</i>				
Rio Tinto Finance USA Ltd., Senior Notes	2.500%	5/20/16	500,000	509,565 (c)
Thompson Creek Metals Co. Inc., Senior Notes	12.500%	5/1/19	150,000	129,750
Vale Overseas Ltd., Notes	6.250%	1/23/17	338,000	358,484
<i>Total Metals & Mining</i>				997,799
Total Materials				1,833,224
<i>Telecommunication Services 2.7%</i>				
<i>Diversified Telecommunication Services 1.7%</i>				
Axtel SAB de CV, Senior Secured Notes	9.000%	1/31/20	188,000	168,956 (b)
Cincinnati Bell Telephone Co., Senior Debentures	6.300%	12/1/28	45,000	43,087
Deutsche Telekom International Finance BV, Senior Notes	5.750%	3/23/16	140,000	146,556
Telecom Italia Capital, Senior Notes	5.250%	10/1/15	320,000	326,141
Telefonica Emisiones SAU, Senior Notes	3.992%	2/16/16	230,000	235,905
Verizon Communications Inc., Senior Notes	2.021%	9/14/18	760,000	793,361 (a)(c)
Verizon Communications Inc., Senior Notes	4.600%	4/1/21	300,000	333,646
<i>Total Diversified Telecommunication Services</i>				2,047,652
<i>Wireless Telecommunication Services 1.0%</i>				
Sprint Capital Corp., Senior Notes	6.875%	11/15/28	650,000	599,625

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<i>Wireless Telecommunication Services continued</i>				
Sprint Corp., Senior Notes	7.875%	9/15/23	620,000	\$ 635,500
<i>Total Wireless Telecommunication Services</i>				<i>1,235,125</i>
Total Telecommunication Services				3,282,777
<i>Utilities 0.3%</i>				
<i>Electric Utilities 0.3%</i>				
Edison International, Senior Notes	3.750%	9/15/17	300,000	317,712
Total Corporate Bonds & Notes (Cost \$37,374,211)				38,298,759
<i>Mortgage-Backed Securities 2.2%</i>				
<i>GNMA 2.2%</i>				
Government National Mortgage Association (GNMA)	6.500%	8/15/34	227,028	265,680 (c)
Government National Mortgage Association (GNMA) II	1.369%	8/20/58	150,307	153,025 (a)(c)
Government National Mortgage Association (GNMA) II	1.710%	10/20/59-1/20/60	838,705	863,130 (a)(c)
Government National Mortgage Association (GNMA) II	3.289%	10/20/59	36,434	38,558 (a)(c)
Government National Mortgage Association (GNMA) II	1.678%	12/20/59	181,059	185,959 (a)(c)
Government National Mortgage Association (GNMA) II	1.680%	12/20/59	735,274	754,491 (a)(c)
Government National Mortgage Association (GNMA) II	1.349%	7/20/60	164,019	167,648 (a)(c)
Government National Mortgage Association (GNMA) II	1.531%	7/20/60	172,985	177,122 (a)(c)
Total Mortgage-Backed Securities (Cost \$2,581,715)				2,605,613
<i>Municipal Bonds 0.3%</i>				
<i>North Carolina 0.3%</i>				
North Carolina State Education Assistance Authority Revenue, Student Loan Backed Notes (Cost \$378,178)	1.166%	10/25/41	400,000	401,748 (a)
<i>Senior Loans 3.0%</i>				
<i>Consumer Discretionary 1.1%</i>				
<i>Media 0.9%</i>				
CSC Holdings Inc., New Term Loan B	2.678%	4/17/20	145,891	145,409 (i)(j)
Univision Communications Inc., Term Loan C4	4.000%	3/1/20	783,391	783,024 (i)(j)
Virgin Media Bristol LLC, USD Term Loan B	3.500%	6/7/20	213,702	213,717 (i)(j)
<i>Total Media</i>				<i>1,142,150</i>
<i>Specialty Retail 0.2%</i>				
Michaels Stores Inc., Term Loan B	3.750%	1/28/20	246,241	246,460 (i)(j)
Total Consumer Discretionary				1,388,610
<i>Consumer Staples 0.2%</i>				
<i>Food Products 0.2%</i>				
H.J. Heinz Co., Term Loan B2	3.250%	6/5/20	197,030	197,412 (i)(j)
<i>Health Care 0.2%</i>				
<i>Health Care Providers & Services 0.2%</i>				
Envision Healthcare Corp., Term Loan	4.000%	5/25/18	237,429	238,505 (i)(j)

See Notes to Financial Statements.

Western Asset Variable Rate Strategic Fund Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
Industrials 0.2%				
<i>Airlines 0.2%</i>				
American Airlines Inc., Exit Term Loan	3.750%	6/27/19	295,489	\$ 295,911 ^{(i)(j)}
Information Technology 0.3%				
<i>IT Services 0.3%</i>				
First Data Corp., New 2018 Extended Term Loan	3.674%	3/24/18	301,701	301,921 ^{(i)(j)}
Telecommunication Services 0.8%				
<i>Diversified Telecommunication Services 0.8%</i>				
Intelsat Jackson Holdings SA, Term Loan B2	3.750%	6/30/19	711,984	710,115 ^{(i)(j)}
Windstream Corp., Term Loan B4	3.500%	1/23/20	246,222	246,375 ^{(i)(j)}
Total Telecommunication Services				956,490
Utilities 0.2%				
<i>Electric Utilities 0.2%</i>				
Equipower Resources Holdings LLC, First Lien Term Loan	4.250%	12/21/18	234,901	235,011 ^{(i)(j)}
Total Senior Loans (Cost \$3,525,005)				3,613,860
Sovereign Bonds 3.6%				
<i>Brazil 2.1%</i>				
Banco Nacional de Desenvolvimento Economico e Social, Senior Notes	3.375%	9/26/16	420,000	422,625 ^(b)
Federative Republic of Brazil, Notes	10.000%	1/1/17	7,279,000 BRL	2,173,537
<i>Total Brazil</i>				<i>2,596,162</i>
<i>Mexico 1.2%</i>				
United Mexican States, Bonds	6.500%	6/9/22	15,090,000 MXN	1,036,572
United Mexican States, Medium-Term Notes	6.750%	9/27/34	85,000	113,900
United Mexican States, Senior Notes	5.550%	1/21/45	210,000	246,750
<i>Total Mexico</i>				<i>1,397,222</i>
<i>Russia 0.3%</i>				
Russian Foreign Bond Eurobond, Senior Bonds	12.750%	6/24/28	254,000	393,278 ^(d)
Total Sovereign Bonds (Cost \$6,225,492)				4,386,662
U.S. Government & Agency Obligations 0.0%				
<i>U.S. Government Obligations 0.0%</i>				
U.S. Treasury Notes (Cost \$10,035)	2.750%	11/15/23	10,000	10,724
			Shares	
Common Stocks 0.0%				
Industrials 0.0%				
<i>Marine 0.0%</i>				
DeepOcean Group Holding AS (Cost \$72,490)			3,101	41,606 ^{*(e)(f)}

See Notes to Financial Statements.

Schedule of investments (unaudited) (cont d)

March 31, 2015

Western Asset Variable Rate Strategic Fund Inc.

Security	Rate	Shares	Value
Preferred Stocks 1.7%			
Financials 1.7%			
<i>Capital Markets 1.7%</i>			
Northern Trust Corp.	5.850%	28,000	\$ 714,000
State Street Corp.	5.900%	49,000	1,337,210 ^(a)
Total Preferred Stocks (Cost \$1,975,960)			2,051,210
Total Investments before Short-Term Investments (Cost \$132,621,924)			133,513,411
		Maturity Date	Face Amount
Short-Term Investments 0.7%			
<i>Repurchase Agreements 0.7%</i>			
State Street Bank & Trust Co. repurchase agreement dated 3/31/15; Proceeds at maturity \$820,000; (Fully collateralized by U.S. government obligations, 2.125% due 1/31/21; Market value \$837,105) (Cost \$820,000)	0.000%	4/1/15	820,000
Total Investments 110.6% (Cost \$133,441,924#)			134,333,411
Liabilities in Excess of Other Assets (10.6%)			(12,864,126)
Total Net Assets 100.0%			\$ 121,469,285

Face amount denominated in U.S. dollars, unless otherwise noted.

* Non-income producing security.

(a) Variable rate security. Interest rate disclosed is as of the most recent information available.

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

(c) All or a portion of this security is held by the counterparty as collateral for open reverse repurchase agreements.

(d) Security is exempt from registration under Regulation S of the Securities Act of 1933. Regulation S applies to securities offerings that are made outside of the United States and do not involve direct selling efforts in the United States. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(e) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

(f) Illiquid security.

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- (g) The coupon payment on these securities is currently in default as of March 31, 2015.
- (h) Security has no maturity date. The date shown represents the next call date.
- (i) Senior loans may be considered restricted in that the Fund ordinarily is contractually obligated to receive approval from the agent bank and/or borrower prior to the disposition of a senior loan.
- (j) Interest rates disclosed represent the effective rates on senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.

Aggregate cost for federal income tax purposes is substantially the same.

[See Notes to Financial Statements.](#)

Western Asset Variable Rate Strategic Fund Inc.

Abbreviations used in this schedule:

ARM	Adjustable Rate Mortgage
BRL	Brazilian Real
CDO	Collateralized Debt Obligation
CLO	Collateral Loan Obligation
IO	Interest Only
MXN	Mexican Peso
PAC	Planned Amortization Class
STRIPS	Separate Trading of Registered Interest and Principal Securities

Schedule of Written Options

Security	Expiration Date	Strike Price	Contracts	Value
Eurodollar Futures, Put (Premiums received \$31,932)	12/14/15	\$ 99.00	144	\$ 16,200

See Notes to Financial Statements.

Statement of assets and liabilities (unaudited)

March 31, 2015

Assets:	
Investments, at value (Cost \$133,441,924)	\$ 134,333,411
Foreign currency, at value (Cost \$381,549)	303,137
Cash	201,362
Receivable for securities sold	1,837,147
Deposits with brokers for centrally cleared swap contracts	863,869
Interest and dividends receivable	725,943
Deposits with brokers for open futures contracts	168,348
Foreign currency collateral for written options, at value (Cost \$56,517)	50,724
OTC swaps, at value (premiums paid \$0)	29,728
Receivable from broker variation margin on open futures contracts	27,280
Deposits with brokers for open written options	23,669
Receivable for open OTC swap contracts	376
Prepaid expenses	20,690
Total Assets	138,585,684
Liabilities:	
Payable for open reverse repurchase agreements (Note 3)	14,791,068
Payable for securities purchased	2,083,094
Investment management fee payable	87,025
Payable to broker variation margin on centrally cleared swaps	53,910
Written options, at value (premiums received \$31,932)	16,200
OTC swaps, at value (premiums paid \$1,728)	9,365
Interest payable (Note 3)	3,447
Payable for open OTC swap contracts	2,768
Directors' fees payable	1,138
Accrued expenses	68,384
Total Liabilities	17,116,399
Total Net Assets	\$ 121,469,285
Net Assets:	
Par value (\$0.001 par value; 6,669,153 shares issued and outstanding; 100,000,000 shares authorized)	\$ 6,669
Paid-in capital in excess of par value	131,635,079
Undistributed net investment income	1,078,050
Accumulated net realized loss on investments, futures contracts, written options, swap contracts and foreign currency transactions	(12,391,501)
Net unrealized appreciation on investments, futures contracts, written options, swap contracts and foreign currencies	1,140,988
Total Net Assets	\$ 121,469,285
Shares Outstanding	6,669,153
Net Asset Value	\$18.21

See Notes to Financial Statements.

Statement of operations (unaudited)

For the Six Months Ended March 31, 2015

Investment Income:	
Interest	\$ 2,927,204
Dividends	62,980
<i>Total Investment Income</i>	<i>2,990,184</i>
Expenses:	
Investment management fee (Note 2)	515,422
Excise tax (Note 1)	41,668
Audit and tax fees	40,873
Interest expense (Note 3)	34,448
Shareholder reports	14,452
Transfer agent fees	13,589
Stock exchange listing fees	10,591
Directors fees	9,117
Legal fees	8,873
Fund accounting fees	6,309
Custody fees	4,176
Insurance	1,474
Miscellaneous expenses	4,982
<i>Total Expenses</i>	<i>705,974</i>
Net Investment Income	2,284,210
Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Written Options, Swap Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):	
Net Realized Gain (Loss) From:	
Investment transactions	127,918
Futures contracts	(479,786)
Written options	4,488
Swap contracts	(704,237)
Foreign currency transactions	(19,010)
<i>Net Realized Loss</i>	<i>(1,070,627)</i>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(2,325,973)
Futures contracts	21,376
Written options	15,732
Swap contracts	(181,168)
Foreign currencies	(68,174)
<i>Change in Net Unrealized Appreciation (Depreciation)</i>	<i>(2,538,207)</i>
Net Loss on Investments, Futures Contracts, Written Options, Swap Contracts and Foreign Currency Transactions	(3,608,834)
Decrease in Net Assets from Operations	\$ (1,324,624)

See Notes to Financial Statements.

Statements of changes in net assets

For the Six Months Ended March 31, 2015 (unaudited)
and the Year Ended September 30, 2014

	2015	2014
Operations:		
Net investment income	\$ 2,284,210	\$ 5,194,485
Net realized loss	(1,070,627)	(380,832)
Change in net unrealized appreciation (depreciation)	(2,538,207)	1,923,119
<i>Increase (Decrease) in Net Assets from Operations</i>	<i>(1,324,624)</i>	<i>6,736,772</i>
Distributions to Shareholders From (Note 1):		
Net investment income	(2,901,082)	(5,802,163)
<i>Decrease in Net Assets from Distributions to Shareholders</i>	<i>(2,901,082)</i>	<i>(5,802,163)</i>
<i>Increase (Decrease) in Net Assets</i>	<i>(4,225,706)</i>	<i>934,609</i>
Net Assets:		
Beginning of period	125,694,991	124,760,382
End of period*	\$ 121,469,285	\$ 125,694,991
*Includes undistributed net investment income of:	\$1,078,050	\$1,694,922

See Notes to Financial Statements.

Statement of cash flows (unaudited)

For the Six Months Ended March 31, 2015

Increase (Decrease) in Cash:	
Cash Provided (Used) by Operating Activities:	
Net decrease in net assets resulting from operations	\$ (1,324,624)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(12,438,753)
Sales of portfolio securities	15,156,141
Net purchases, sales and maturities of short-term investments	1,490,000
Net amortization of premium (accretion of discount)	(423,561)
Increase in receivable for securities sold	(1,540,767)
Decrease in interest and dividends receivable	85,064
Increase in receivable from broker variation margin on open futures contracts	(4,226)
Decrease in receivable from broker variation margin on open centrally cleared swaps	4,358
Increase in prepaid expenses	(9,185)
Decrease in principal paydown receivable	4,165
Decrease in receivable for open OTC swap contracts	1,629
Increase in deposits with brokers for open futures contracts	(71,340)
Increase in deposits with brokers for open written options	(23,669)
Decrease in foreign currency collateral for open futures contracts	33,616
Increase in foreign currency collateral for written options contracts	(50,724)
Increase in deposits with brokers for centrally cleared swap contracts	(572,034)
Decrease in premiums paid for OTC swap contracts	281
Decrease in payable for open OTC swap contracts	(40,015)
Increase in payable for securities purchased	863,580
Increase in investment management fee payable	173
Decrease in Directors fees payable	(1,348)
Increase in interest payable	371
Decrease in accrued expenses	(38,476)
Increase in premiums received from written options	31,932
Increase in payable to broker variation margin on open centrally cleared swap contracts	53,910
Net realized gain on investments	(127,918)
Change in unrealized appreciation of investments, written options and OTC swap contracts	2,568,423
Net Cash Provided by Operating Activities*	3,627,003
Cash Flows from Financing Activities:	
Distributions paid on common stock	(2,901,082)
Decrease in payable for reverse repurchase agreements	(460,589)
Net Cash Used in Financing Activities	(3,361,671)
Net Increase in Cash	265,332
Cash at Beginning of Period	239,167
Cash at End of Period	\$ 504,499

* Included in operating expenses is cash of \$34,077 paid for interest on borrowings.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended September 30, unless otherwise noted:

	2015 ^{1,2}	2014 ¹	2013 ¹	2012 ¹	2011 ¹	2010 ¹
Net asset value, beginning of period	\$18.85	\$18.71	\$18.46	\$16.80	\$17.05	\$15.18
Income (loss) from operations:						
Net investment income	0.34	0.78	0.78	0.90	0.86	0.82
Net realized and unrealized gain (loss)	(0.54)	0.23	0.34	1.56	(0.43)	1.66
Total income (loss) from operations	(0.20)	1.01	1.12	2.46	0.43	2.48
Less distributions from:						
Net investment income	(0.44) ³	(0.87)	(0.87)	(0.80)	(0.64)	(0.67)
Net realized gains					(0.04)	
Total distributions	(0.44)	(0.87)	(0.87)	(0.80)	(0.68)	(0.67)
Increase in net asset value due to shares repurchased in tender offer						0.06
Net asset value, end of period	\$18.21	\$18.85	\$18.71	\$18.46	\$16.80	\$17.05
Market price, end of period	\$16.55	\$17.08	\$17.00	\$18.45	\$15.43	\$15.86
Total return, based on NAV^{4,5}	(1.08)%	5.47%	6.16%	15.05%	2.45%	17.08%
Total return, based on Market Price⁶	(0.55)%	5.66%	(3.25)%	25.59%	1.44%	20.40%
Net assets, end of period (000s)	\$121,469	\$125,695	\$124,760	\$122,940	\$111,894	\$113,535
Ratios to average net assets:						
Gross expenses	1.15% ⁷	1.14%	1.08%	1.20%	0.99%	1.09%
Net expenses ⁸	1.15 ⁷	1.14	1.08	1.20	0.99	1.09
Net investment income	3.72 ⁷	4.10	4.18	5.17	4.91	5.09
Portfolio turnover rate	9%	26%	21%	18%	31%	43%

¹ Per share amounts have been calculated using the average shares method.

² For the six months ended March 31, 2015 (unaudited).

³ The actual source of the Fund's current fiscal year distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year.

⁴ 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. Total returns for periods of less than one year are not annualized.

⁵ The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

⁶ 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. Total returns for periods of less than one year are not annualized.

⁷ Annualized.

⁸ The impact of compensating balance arrangements, if any, was less than 0.01%.

[See Notes to Financial Statements.](#)

Notes to financial statements (unaudited)

1. Organization and significant accounting policies

Western Asset Variable Rate Strategic Fund Inc. (the Fund) was incorporated in Maryland on August 3, 2004 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 primary investment objective is to maintain a high level of current income.

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. 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. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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. 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.

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 (formerly, Legg Mason North American Fund Valuation Committee) (the

Notes to financial statements (unaudited) (cont d)

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.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

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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 and liabilities carried at fair value:

ASSETS				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Collateralized mortgage obligations		\$ 46,207,833	\$ 1,035,660	\$ 47,243,493
Asset-backed securities		34,834,388		34,834,388
Convertible bonds & notes		25,348		25,348
Corporate bonds & notes:				
Industrials		1,182,040	98,678	1,280,718
Other corporate bonds & notes		37,018,041		37,018,041
Mortgage-backed securities		2,605,613		2,605,613
Municipal bonds		401,748		401,748
Senior loans		3,613,860		3,613,860
Sovereign bonds		4,386,662		4,386,662
U.S. government & agency obligations		10,724		10,724
Common stocks			41,606	41,606
Preferred stocks	\$ 2,051,210			2,051,210
Total long-term investments	\$ 2,051,210	\$ 130,286,257	\$ 1,175,944	\$ 133,513,411
Short-term investments		820,000		820,000
Total investments	\$ 2,051,210	\$ 131,106,257	\$ 1,175,944	\$ 134,333,411
Other financial instruments:				
Futures contracts	\$ 87,819			\$ 87,819
OTC interest rate swaps		\$ 29,728		29,728
Centrally cleared interest rate swaps		220,669		220,669
Total other financial instruments	\$ 87,819	\$ 250,397		\$ 338,216
Total	\$ 2,139,029	\$ 131,356,654	\$ 1,175,944	\$ 134,671,627
LIABILITIES				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other financial instruments:				
Written options	\$ 16,200			\$ 16,200
Futures contracts	1,956			1,956
OTC credit default swaps on corporate issues buy protection		\$ 9,365		9,365
Total	\$ 18,156	\$ 9,365		\$ 27,521

See Schedule of Investments for additional detailed categorizations.

Values include any premiums paid or received with respect to swap contracts.

Notes to financial statements (unaudited) (cont d)

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Reverse repurchase agreements. The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed-upon time and price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations. Interest payments made on reverse repurchase agreements are recognized as a component of Interest expense on the Statement of Operations. In periods of increased demand for the security, the Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund.

(d) Futures contracts. The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures

contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(e) Swap agreements. The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with other portfolio transactions. Swap agreements are privately negotiated in the over-the-counter market (OTC Swaps) or may be executed on a registered exchange (Centrally Cleared Swaps). Unlike Centrally Cleared Swaps, the Fund has credit exposure to the counterparties of OTC Swaps.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of Centrally Cleared Swaps, if any, is recorded as a receivable or payable for variation margin on the Statement of Assets and Liabilities. Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Statement of Operations.

The Fund's maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of March 31, 2015, the Fund did not hold any credit default swaps to sell protection.

For average notional amounts of swaps held during the six months ended March 31, 2015, see Note 4.

Credit default swaps

The Fund enters into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return

Notes to financial statements (unaudited) (cont d)

in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these

agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

Interest rate swaps

The Fund enters into interest rate swap contracts to manage its exposure to interest rate risk. Interest rate swaps are agreements between two parties to exchange cash flows based on a notional principal amount. The Fund may elect to pay a fixed rate and receive a floating rate, or receive a fixed rate and pay a floating rate, on a notional principal amount. Interest rate swaps are marked-to-market daily based upon quotations from market makers and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. When a swap contract is terminated early, the Fund records a realized gain or loss equal to the difference between the original cost and the settlement amount of the closing transaction.

The risks of interest rate swaps include changes in market conditions that will affect the value of the contract or changes in the present value of the future cash flow streams and the possible inability of the counterparty to fulfill its obligations under the agreement. The Fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that that amount is positive. This risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty.

(f) Written options. When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the option written. If the option expires, the premium received is recorded as a realized gain. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund's basis in the underlying security (in the case of a covered written call option), or the cost to purchase the underlying security (in the case of an uncovered written call option), including brokerage commission, is recognized as a realized gain or loss. When a written put option is exercised, the amount of the premium received is subtracted from the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund's basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing an uncovered call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

Notes to financial statements (unaudited) (cont d)

(g) Stripped securities. The Fund may invest in Stripped Securities, a term used collectively for components, or strips, of fixed income securities. Stripped securities can be principal only securities (PO), which are debt obligations that have been stripped of unmatured interest coupons, or interest only securities (IO), which are unmatured interest coupons that have been stripped from debt obligations. The market value of Stripped Securities will fluctuate in response to changes in economic conditions, rates of pre-payment, interest rates and the market's perception of the securities. However, fluctuations in response to interest rates may be greater in Stripped Securities than for debt obligations of comparable maturities that pay interest currently. The amount of fluctuation may increase with a longer period of maturity.

The yield to maturity on IO s is sensitive to the rate of principal repayments (including prepayments) on the related underlying debt obligation and principal payments may have a material effect on yield to maturity. If the underlying debt obligation experiences greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IO s.

(h) 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 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.

(i) Loan participations. The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with

purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

(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 Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(k) Counterparty risk and credit-risk-related contingent features of derivative instruments. The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund's investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund's net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearinghouse for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Schedule of Investments.

Notes to financial statements (unaudited) (cont d)

Absent an event of default by the counterparty or a termination of the agreement, the terms of the master agreements do not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

As of March 31, 2015, the Fund held written options and OTC credit default swaps with credit related contingent features which had a liability position of \$25,565. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties.

(l) Credit and market risk. The Fund invests in high-yield and emerging market instruments that are subject to certain credit and market risks. The yields of high-yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investments in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

Investments in securities that are collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

(m) Other risks. Consistent with its objective to seek high current income, the Fund may invest in instruments whose values and interest rates are linked to foreign currencies, interest rates, indices or some other financial indicator. The value at maturity or interest rates for these instruments will increase or decrease according to the change in the indicator to which they are indexed, amongst other factors. These securities are generally more volatile in nature, and the risk of loss of principal may be greater.

(n) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Paydown gains and losses on mortgage- and asset-backed securities are recorded as adjustments to interest income. Dividend income is recorded on the ex-dividend date. 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.

(o) Distributions to shareholders. Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. The actual source of the Fund's monthly distributions may be from net investment income, return of capital or a combination of both. Shareholders will be informed of the tax characteristics of the distributions after the close of the fiscal year. Distributions of net realized gains, if any, are declared at least annually. 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.

(p) 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.

(q) 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.

However, due to the timing of when distributions are made by the Fund, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income and 98.2% of net realized gains exceed the distributions from such taxable income and realized gains for the calendar year. The Fund paid \$41,668 of Federal excise taxes attributable to calendar year 2014 in March 2015.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of March 31, 2015, 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 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.

(r) 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.

Notes to financial statements (unaudited) (cont d)

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager. Western Asset Management Company (Western Asset), Western Asset Management Company Limited (Western Asset Limited) and Western Asset Management Company Pte. Ltd. (Western Singapore) are the Fund's subadvisers. LMPFA, Western Asset, Western Asset Limited and Western Singapore 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 0.75% of the Fund's average daily net assets plus the proceeds of any outstanding borrowings.

LMPFA delegates to Western Asset the day-to-day portfolio management of the Fund. Western Asset Limited and Western Singapore provide certain advisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated debt securities. Western Asset Limited and Western Singapore do not receive any compensation from the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Asset Limited and Western Singapore a subadvisory fee of 0.30% on the assets managed by each subadviser.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund's net assets 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 six months ended March 31, 2015, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

	Investments	U.S. Government & Agency Obligations
Purchases	\$ 12,437,553	\$ 1,200
Sales	15,058,286	97,855

At March 31, 2015, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 7,178,664
Gross unrealized depreciation	(6,287,177)
Net unrealized appreciation	\$ 891,487

Transactions in reverse repurchase agreements for the Fund during the six months ended March 31, 2015 were as follows:

Average Daily Balance*	Weighted Average Interest Rate*	Maximum Amount Outstanding
\$15,034,019	0.46%	\$15,406,207

* Averages based on the number of days that Fund had reverse repurchase agreements outstanding.

Interest rates on reverse repurchase agreements ranged from 0.31% to 0.70% during the six months ended March 31, 2015. Interest expense incurred on reverse repurchase agreements totaled \$34,448.

At March 31, 2015, the Fund had the following open reverse repurchase agreements:

Counterparty	Rate	Effective Date	Maturity Date	Face Amount of Reverse Repurchase Agreements
Barclays Capital Inc.	0.60%	3/6/15	4/6/15	\$ 2,092,500
Barclays Capital Inc.	0.60%	3/13/15	4/13/15	2,826,438
Deutsche Bank AG	0.40%	3/17/15	6/17/15	9,872,130
				\$ 14,791,068

On March 31, 2015, the total market value of underlying collateral (refer to the Schedule of Investments for positions held at the counterparty as collateral for reverse repurchase agreements) for open reverse repurchase agreements was \$15,744,354.

At March 31, 2015, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Appreciation (Depreciation)
Contracts to Buy:					
90-Day Eurodollar	48	12/16	\$ 11,833,356	\$ 11,831,400	\$ (1,956)
U.S. Treasury 10-Year Notes	70	6/15	8,935,618	9,023,437	87,819
Net unrealized appreciation on open futures contracts					\$ 85,863

During the six months ended March 31, 2015, written option transactions for the Fund were as follows:

	Number of Contracts	Premiums
Written options, outstanding as of September 30, 2014		
Options written	192	\$ 51,576
Options closed	(48)	(19,644)
Options exercised		
Options expired		
Written options, outstanding as of March 31, 2015	144	\$ 31,932

Notes to financial statements (unaudited) (cont d)

At March 31, 2015, the Fund had the following open swap contracts:

OTC INTEREST RATE SWAPS

Periodic

Swap Counterparty	Notional Amount	Termination Date	Payments Made by the Fund	Payments Received by the Fund	Upfront Premiums Paid (Received)	Unrealized Appreciation
Barclays Capital Inc.	\$ 2,500,000	9/7/22	1.670% semi-annually	3-Month LIBOR		\$ 29,728

CENTRALLY CLEARED INTEREST RATE SWAPS

Swap Counterparty	Notional Amount	Termination Date	Payments Made by the Fund	Payments Received by the Fund	Upfront Premiums Paid (Received)	Unrealized Appreciation
Morgan Stanley	\$ 25,000,000	1/20/25	1.925% semi-annually	3-Month LIBOR	\$ (5,894)	\$ 220,669

OTC CREDIT DEFAULT SWAPS ON CORPORATE ISSUES BUY PROTECTION

Swap Counterparty (Reference Entity)	Notional Amount ²	Termination Date	Implied Credit Spread at March 31, 2015 ³	Periodic Payments Made by the Fund	Market Value	Upfront Premiums Paid (Received)	Unrealized Depreciation
Goldman Sachs Group Inc. (Assured Guaranty Municipal Corp., 0.480% due 3/20/20)	\$ 120,000	3/20/20	3.37%	5.000% quarterly	\$ (8,645)	\$ 1,570	\$ (10,215)
Goldman Sachs Group Inc. (Assured Guaranty Municipal Corp., 0.480% due 3/20/20)	10,000	3/20/20	3.37%	5.000% quarterly	(720)	158	(878)
Total	\$ 130,000				\$ (9,365)	\$ 1,728	\$ (11,093)

¹ If the Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or the underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or the underlying securities comprising the referenced index.

² The maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

³ Implied credit spreads, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. A credit spread identified as Defaulted indicates a credit event has occurred for the referenced entity or obligation.

Percentage shown is an annual percentage rate.

4. Derivative instruments and hedging activities

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at March 31, 2015.

ASSET DERIVATIVES¹

	Interest Rate Risk
Futures contracts ²	\$ 87,819
OTC swap contracts ³	29,728
Centrally cleared swap contracts ⁴	220,669
Total	\$ 338,216

LIABILITY DERIVATIVES¹

	Interest Rate Risk	Credit Risk	Total
Written options	\$ 16,200		\$ 16,200
Futures contracts ²	1,956		1,956
OTC swap contracts ³		\$ 9,365	9,365
Total	\$ 18,156	\$ 9,365	\$ 27,521

¹ Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

² Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

³ Values include premiums paid (received) on swap contracts which are shown separately in the Statement of Assets and Liabilities.

⁴ Includes cumulative appreciation (depreciation) of centrally cleared swap contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the six months ended March 31, 2015. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

	Interest Rate Risk	Credit Risk	Total
Written options	\$ 4,488		\$ 4,488
Futures contracts	(479,786)		(479,786)
Swap contracts	(698,058)	\$ (6,179)	(704,237)
Total	\$ (1,173,356)	\$ (6,179)	\$ (1,179,535)

Notes to financial statements (unaudited) (cont d)

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

	Interest Rate Risk	Credit Risk	Total
Written options	\$ 15,732		\$ 15,732
Futures contracts	21,376		21,376
Swap contracts	(182,737)	\$ 1,569	(181,168)
Total	\$ (145,629)	\$ 1,569	\$ (144,060)

During the six months ended March 31, 2015, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Written options	\$ 10,329
Futures contracts (to buy)	9,805,031
Futures contracts (to sell)	7,564,825
	Average Notional Balance
Interest rate swap contracts	\$ 27,500,000
Credit default swap contracts (to buy protection)	224,286

At March 31, 2015, there were no open positions held in this derivative.

The following table presents by financial instrument, the Fund's derivative assets net of the related collateral received by the Fund at March 31, 2015:

	Gross Amount of Derivative Assets in the Statement of Assets and Liabilities ¹	Collateral Received	Net Amount
Futures contracts ²	\$ 27,280		\$ 27,280
OTC swap contracts	29,728		29,728
Total	\$ 57,008		\$ 57,008

The following table presents by financial instrument, the Fund's derivative liabilities net of the related collateral pledged by the Fund at March 31, 2015:

	Gross Amount of Derivative Liabilities in the Statement of Assets and Liabilities ¹	Collateral Pledged ^{3,4}	Net Amount
Written options	\$ 16,200	\$ (16,200)	
Centrally cleared swap contracts ²	53,910	(53,910)	
OTC swap contracts	9,365		\$ 9,365
Total	\$ 79,475	\$ (70,110)	\$ 9,365

¹ Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

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² Amount represents the current day's variation margin as reported in the Statement of Assets and Liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

³ Gross amounts are not offset in the Statement of Assets and Liabilities.

⁴ In some instances, the actual collateral received and/or pledged may be more than the amount shown here due to overcollateralization.

38 Western Asset Variable Rate Strategic Fund Inc. 2015 Semi-Annual Report

5. Distributions subsequent to March 31, 2015

The following distributions have been declared by the Fund's Board of Directors and are payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
4/17/15	4/24/15	\$ 0.0725
5/22/15	5/29/15	\$ 0.0725
6/19/15	6/26/15	\$ 0.0725
7/24/15	7/31/15	\$ 0.0725
8/21/15	8/28/15	\$ 0.0725

6. Capital loss carryforward

As of September 30, 2014, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
9/30/2019	\$ (4,735,221)

This amount will be available to offset any future taxable capital gains, except that under applicable tax rules, deferred capital losses of \$6,158,599, which have no expiration date, must be used first to offset any such gains.

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 Western Asset Variable Rate Strategic Fund Inc. (the Fund), including a majority of its members that 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, Western Asset Management Company (Western Asset), Western Asset Management Company Limited in London (Western Asset London) and Western Asset Management Company Pte. Ltd. in Singapore (Western Asset Singapore, and together with Western Asset and Western Asset London, the Sub-Advisers). At a meeting (the Contract Renewal Meeting) held in-person on November 12 and 13, 2014, 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 (collectively, 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. 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.

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 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 considered 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 and Western Asset at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager, 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 the Sub-Advisers and others and Western Asset's coordination and oversight of the services provided to the Fund by Western Asset London and Western Asset Singapore. 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. 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 delegee. Pursuant to this provision of the Western Asset Sub-Advisory Agreement, Western Asset London and Western Asset Singapore help to provide certain investment sub-advisory services to the Fund pursuant to separate Sub-Advisory Agreements with Western Asset.

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 particular investment style, philosophy and strategy of the Manager and Western Asset, as well as the resources available to the Manager and the Sub-Advisers.

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

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 performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper 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 global income closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of fourteen funds for the 1-year period ended June 30, 2014, nine funds for the 3-year period ended that date and eight funds for the 5-year period ended that date. The Board noted that it had received and discussed with the Manager 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 Lipper.

The Lipper 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 the Fund s performance was ranked thirteenth among the funds in the Performance Universe for the 1-year period ending June 30, 2014 (first being best in these performance rankings) and was ranked fourth among the funds in the Performance Universe for each of the 3- and 5-year periods ended that date. The Fund s performance was worse than the Performance Universe median for the 1-year period ended June 30, 2014, but was better than the Performance Universe median for each of the 3- and 5-year periods ended that date. Among other things, the Manager noted that unlike the other Performance Universe funds at least 80% of the Fund s assets generally must be invested in floating rate instruments. According to the Manager, this requirement put the Fund at a disadvantage relative to the other Performance Universe funds in the declining global base interest rate environment during the past five years. Since 2008, the Manager noted, a zero interest rate policy has effectively been maintained by the Federal Reserve. The Board considered that the Fund s dissimilarity from the other funds in the small Performance Universe made meaningful performance comparisons difficult. In addition to the Fund s performance relative to the Performance Universe, the Board considered the Fund s performance in absolute terms and relative to its benchmark. On a net asset value basis, the Fund outperformed its benchmark for each of the 1-, 3- and 5-year periods ended June 30, 2014.

Based on the reviews and discussions of Fund performance and considering other relevant factors, including those noted above, the Board concluded that, under the circumstances, 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.

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 Fee payable to Western Asset under the Western Asset Sub-Advisory Agreement is paid by the Manager, not the Fund, and, accordingly, that the retention of 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 and Western Asset Singapore under their Sub-Advisory Agreements with Western Asset are paid by Western Asset, not the Fund, and, accordingly, that the retention of Western Asset London and Western Asset Singapore 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 Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an expense universe (the Expense Universe) selected and provided by Lipper. The comparison was based upon the constituent funds' latest fiscal years. The Expense Universe consisted of the Fund and six other leveraged global income closed-end funds, as classified by Lipper. The seven funds in the Expense Universe had average net common share assets ranging from the Fund's \$125.2 million to \$1.970 billion.

The Lipper Expense Information, comparing the Management Fee as well as the Fund's actual total expenses to the Fund's Expense Universe, showed, among other things, that the Fund's Management Fee on both a contractual basis and an actual basis (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 Universe funds) when compared on the basis of common share assets only was ranked first among the funds in the Expense Universe (first being lowest and, therefore, best in these expense component rankings) and that the Fund's actual Management Fee was ranked fourth among the funds in the Expense Universe when compared on the basis of common share and leveraged assets. The Fund's actual total expenses ranked first among the funds in the Expense Universe based upon common share assets only and ranked second among the funds in the Expense Universe based upon common share and leveraged assets. The Fund's actual total expenses compared on the basis of common share and leveraged assets were at the Expense Universe median for that expense component but each of the Fund's other expense components was better than the Expense Universe median for that component. The Board noted that the small number of funds in the Expense Universe made meaningful comparisons difficult. The Board also took into consideration the varying sizes of the funds in the Expense Universe and that the Fund was the smallest Expense Universe fund.

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

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 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, 2014 and March 31, 2013. 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 Board received a report from an outside consultant engaged by the Manager that had reviewed the Manager's revenue and cost allocation methodologies. The profitability to each of the Sub-Advisers was not considered to be a material factor in the Board's considerations since Western Asset's Sub-Advisory Fee is paid by the Manager, not the Fund, and the Sub-Advisory Fees for Western Asset London and Western Asset Singapore are paid by Western Asset, not the Fund. The profitability analysis presented to the Board as part of the

Contract Renewal Information indicated that profitability to the Manager had not changed during the period covered by the analysis and remained at a level that the Board did not consider such as to support a determination against continuation of the Management Agreement 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 and did not regard such benefits as excessive.

* * * * *

In light of all of the foregoing and other relevant factors, the Board determined that, under the circumstances, 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 attributed different weights 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.

Additional shareholder information (unaudited)

Results of annual meeting of shareholders

The Annual Meeting of Shareholders of Western Asset Variable Rate Strategic Fund Inc. was held on January 30, 2015 for the purpose of considering and voting upon the election of Directors. The following table provides information concerning the matter voted upon at the Meeting:

Election of directors

Nominees	Votes For	Votes Withheld
Robert D. Agdern*	5,841,198	34,484
Carol L. Colman	5,833,585	42,097
Daniel P. Cronin	5,856,213	19,469
Eileen A. Kamerick	5,841,715	33,967

* Effective January 1, 2015, Mr. Agdern became a Director.

At March 31, 2015, in addition to Robert D. Agdern, Carol L. Colman, Daniel P. Cronin and Eileen A. Kamerick, the other Directors of the Fund were as follows:

Paolo M. Cucchi

Kenneth D. Fuller

Leslie H. Gelb

William R. Hutchinson

Riordan Roett

Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash (i.e., opt-out), all distributions, on your common shares (the **Common Shares**) will be automatically reinvested by American Stock Transfer & Trust Company (**AST**), as agent for the holders of Common Shares (the **Common Shareholders**) (the **Plan Agent**), in additional Common Shares under the 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 AST, as dividend paying agent.

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

1. If the market price of the Common Shares on the record date (or, if the record date is not a New York Stock Exchange (the **Exchange**) trading day, the immediately preceding trading day) for determining shareholders eligible to receive the relevant dividend or distribution (the **determination date**) is equal to or exceeds 98% of the net asset value per share of the Common Shares, the Fund will issue new Common Shares at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the market price per share of the Common Shares on the determination date.

2. If 98% of the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the determination date, the Plan Agent will receive the distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the determination date and terminating no later than the earlier of (a) 30 days after the distribution payment date, or (b) the record date for the next succeeding distribution to be made to the Common Shareholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Shares at the close of trading on the Exchange on the determination 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 Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the then current market price per share.

The Plan Agent maintains all participants' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in noncertificated form. Any proxy you receive will include all Common Shares you have received under the Plan.

Dividend reinvestment plan (unaudited) (cont d)

You may withdraw from the Plan by notifying the Plan Agent in writing at 6201 15th Avenue, Brooklyn, New York 11219 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 distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared distribution on the Common Shares. The Plan may be terminated by the Fund upon notice in writing mailed to Common Shareholders at least 30 days prior to the record date for the payment of any distribution by the Fund for which the termination is to be effective. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. You will be charged a service charge and the Plan Agent is authorized to deduct brokerage charges actually incurred for this transaction from the proceeds.

There is no service charge for reinvestment of your distributions in Common Shares. 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 distributions will be automatically reinvested in additional Common Shares, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Shares 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. Investors will be subject to income tax on amounts reinvested under the plan.

Automatically reinvesting distributions does not mean that you do not have to pay income taxes due upon receiving distributions.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan and your account may be obtained from the Plan Agent at 1-888-888-0151.

Western Asset

Variable Rate Strategic Fund Inc.

Directors

Robert D. Agdem*

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Kenneth D. Fuller

Chairman

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Officers

Kenneth D. Fuller

President and Chief Executive Officer

Richard F. Sennett

Principal Financial Officer

Ted P. Becker

Chief Compliance Officer

Vanessa A. Williams

Identity Theft Prevention Officer

Robert I. Frenkel

Secretary and Chief Legal Officer

Thomas C. Mandia

Assistant Secretary

Steven Frank

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Treasurer

Jeanne M. Kelly

Senior Vice President

* Effective January 1, 2015, Mr. Agdern became a Director.

Western Asset Variable Rate Strategic Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Investment manager

Legg Mason Partners Fund Advisor, LLC

Subadvisers

Western Asset Management Company

Western Asset Management Company Limited

Western Asset Management Company Pte. Ltd.

Custodian

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

Transfer agent

American Stock Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

Independent registered public accounting firm

KPMG LLP

345 Park Avenue

New York, NY 10154

Legal counsel

Simpson Thacher & Bartlett LLP

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425 Lexington Avenue

New York, NY 10017

New York Stock Exchange Symbol

GFY

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.

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.lmcef.com, or contact the Fund at 1-888-777-0102.

NOT PART OF THE SEMI-ANNUAL REPORT

Western Asset Variable Rate Strategic Fund Inc.

Western Asset Variable Rate Strategic 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 common stock in the open market.

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. 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) on the Fund's website at www.lmcef.com and (3) on the SEC's website at www.sec.gov.

This report is transmitted to the shareholders of Western Asset Variable Rate Strategic 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.

American Stock

Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

WAS04036 5/15 SR15-2487

ITEM 2. CODE OF ETHICS.

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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.

Not applicable.

ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable.

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.

ITEM 12. EXHIBITS.

(a) (1) Not applicable.

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

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.

Western Asset Variable Rate Strategic Fund Inc.

By: /s/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: May 22, 2015

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/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: May 22, 2015

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

Date: May 22, 2015