

Western Asset Municipal Defined Opportunity Trust Inc.

Form N-CSR

January 31, 2018

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**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 811-22265**

**Western Asset Municipal Defined Opportunity Trust Inc.**

**(Exact name of registrant as specified in charter)**

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

**(Address of principal executive offices) (Zip code)**

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: (888) 777-0102**

**Date of fiscal year end: November 30**

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

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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Annual Report

November 30, 2017

WESTERN ASSET

MUNICIPAL DEFINED OPPORTUNITY TRUST  
INC. (MTT)

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

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## Fund objectives

The Fund's primary investment objective is to provide high current income exempt from federal income tax\* and then to liquidate on or about April 30, 2021 and distribute all of the Fund's net assets to shareholders. As a secondary investment objective, the Fund will seek total return. There can be no assurance the Fund's investment objectives will be achieved.

As a fundamental policy, the Fund seeks to achieve its primary investment objective by investing, under normal market conditions, at least 80% of its net assets in investment grade municipal securities, the interest on which is exempt from federal income tax.

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

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## Letter from the chairman

**Dear Shareholder,**

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

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

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 29, 2017

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## Investment commentary

### Economic review

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

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

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

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

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 29, 2017

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

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

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

<sup>iii</sup> The Federal Reserve Board (the Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

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## Fund overview

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

A. The Fund's primary investment objective is to provide high current income exempt from federal income tax and then to liquidate on or about April 30, 2021 and distribute all of the Fund's net assets to shareholders. As a secondary investment objective, the Fund will seek total return. There can be no assurance the Fund's investment objectives will be achieved.

As a fundamental policy, the Fund seeks to achieve its primary investment objective by investing, under normal market conditions, at least 80% of its net assets in investment grade municipal securities, the interest on which is exempt from federal income tax. The Fund may invest up to 20% of its net assets in municipal securities rated below investment grade (commonly known as "high yield" or "junk" bonds) at the time of purchase by at least one nationally recognized statistical rating organization or which, if unrated, we deemed to be of comparable quality. The Fund may also invest up to 20% of its net assets in investments that generate income that is subject to federal income tax and in municipal securities, the interest on which is subject to the federal alternative minimum tax ("AMT"), and as a result, a portion of the Fund's distributions may be taxable to holders of common shares. The Fund may use a variety of derivative instruments as part of its investment strategies or for hedging and/or risk management purposes.

In purchasing securities and other investments for the Fund, we may take full advantage of the entire range of maturities and durations<sup>i</sup> offered by municipal securities and may adjust the average maturity or duration of the Fund's portfolio from time to time, depending on our assessment of the relative yields available on securities of different maturities and durations and our expectations of future changes in interest rates.

As a fundamental policy, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may lend portfolio securities, invest in certain instruments, including inverse floating rate securities, participate in the creation of tender option bonds and enter into transactions such as short sales, that have the economic effect of financial leverage ("effective leverage"), provided that the Fund will not make such investments if, upon completion of the investment, the effective leverage of the Fund would be greater than 10% of the Fund's total assets.

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

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## Fund overview (cont'd)

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

A. Most spread sectors (non-Treasuries) posted positive returns, but generated mixed results versus equal-duration Treasuries over the twelve-month reporting period ended November 30, 2017. The fixed income market was impacted by a number of factors during the reporting period, including signs of generally improving economic growth, uncertainties related to future Federal Reserve Board (the "Fed") monetary policy, fiscal policy initiatives and several geopolitical issues.

Both short-term and longer-term Treasury yields moved higher during the reporting period as a whole. The yield for the two-year Treasury note began the reporting period at 1.11% and ended the period at 1.78%, the latter matching its peak for the period. The low for the period of 1.10% occurred on December 7, 2016. The yield for the ten-year Treasury began the reporting period at 2.37% and ended the period at 2.42%. The low for the period of 2.05% occurred on September 7, 2017 and the peak of 2.60% took place on both December 15 and December 16, 2016.

The municipal bond market outperformed its taxable bond counterpart during the twelve-month reporting period. Over that time, the Bloomberg Barclays Municipal Bond Index<sup>iii</sup> and the Bloomberg Barclays U.S. Aggregate Index<sup>iv</sup> returned 5.58% and 3.21%, respectively. The municipal market posted positive returns during nine of the twelve months of the reporting period. This was driven by overall solid fundamentals and generally positive investor demand. Meanwhile, the Bloomberg Barclays Five-Year Municipal Bond Index<sup>v</sup>, which has a duration similar to that of the Fund, returned 3.18% during the reporting period.

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

A. There were several changes made to the Fund's portfolio during the reporting period. We lengthened the Fund's duration after the November 2016 U.S. presidential election as we felt rates had moved up too far, too fast. We also selectively increased our exposure to the State and Local General Obligation bond sectors, namely debt issued by Illinois and Chicago, as we found them to be attractively valued. The Fund employed the use of U.S. Treasury futures during the reporting period to manage duration. This strategy contributed to performance.

### Performance review

For the twelve months ended November 30, 2017, Western Asset Municipal Defined Opportunity Trust Inc. returned 3.06% based on its net asset value (NAV<sup>i</sup>) and 1.81% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays Municipal Bond Index, returned 5.58% for the same period. The Lipper General and Insured Municipal Debt (Unleveraged) Closed-End Funds Category Average<sup>vii</sup> returned 6.29% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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

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During the twelve-month period, the Fund made distributions to shareholders totaling \$1.09 per share.\* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2017. **Past performance is no guarantee of future results.**

**Performance Snapshot as of November 30, 2017**

Price Per Share	12-Month Total Return**
\$21.09 (NAV)	3.06%
\$21.37 (Market Price)	1.81%

**All figures represent past performance and are not a guarantee of future results.**

**\*\* Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

**Total return assumes the reinvestment of all distributions at NAV.**

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

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

**A.** The largest contributor to the Fund's relative performance during the reporting period was its positioning in a number of sectors. We continued to favor revenue bonds as we found them to be attractively valued. In contrast, we maintained an underweight to the State and Local General Obligation bond sectors. In our view, we continue to be cautious about the overall health of state and local budgets, as well as the relatively unattractive valuations for general obligation debt. In addition, traditional general obligation and appropriation pledges are being viewed with more skepticism in certain situations throughout the country. In particular, an overweight to the Industrial Revenue (largely gas pre-pay) sector added the most value. It performed well given their greater spreads and yields, coupled with stable fundamentals. Security selection in the Local General Obligation bond sector, along with holdings in the Transportation and Water & Sewer sectors were also beneficial for performance.

Elsewhere, our quality biases were beneficial for returns. Having an overweight to municipal securities rated BBB was additive to performance as they outperformed their higher rated counterparts over the twelve-month reporting period.

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

**A.** The largest detractor from the Fund's relative performance for the reporting period was its yield curve<sup>viii</sup> positioning. The Fund was underweight the 10+ year portion of the yield curve versus the benchmark. This was not rewarded given the flattening of the municipal yield curve during the reporting period. However, the Fund was overweight the 10+ year portion of the yield curve versus the Bloomberg Barclays Five-Year Municipal Bond Index, which had a duration more similar to that of the Fund.

\* For the tax character of distributions paid during the fiscal year ended November 30, 2017, please refer to page 27 of this report.

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### Fund overview (cont d)

Security selection in the Special Tax Obligation sector was also negative for results during the reporting period. In particular, our holdings issued by the U.S. Virgin Islands detracted from performance as they were negatively impacted by the destruction caused by hurricane Maria, as well as concerns related to Puerto Rico's debt restructuring under the PROMESA ( Puerto Rico Oversight, Management, and Economic Stability Act ).

Underweights to the State and Local General Obligation bond sectors detracted from performance. We remained wary of the health of certain state and local budgets and underlying fundamentals. Finally, underweights to the Leasing, Transportation and Health Care sectors were also headwinds for results.

#### Looking for additional information?

The Fund is traded under the symbol MTT and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XMTTX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com) (click on the name of the Fund).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset Municipal Defined Opportunity Trust Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

December 19, 2017

***RISKS:** The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Because the Fund is non-diversified, it may be more susceptible to economic, political or regulatory events than a diversified fund. The Fund's investments are subject to a number of risks, including credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. The Fund may invest in lower-rated high-yield bonds, known as junk bonds, which are subject to greater liquidity and credit risk (risk of default) than higher-rated obligations. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.*

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*Investing in securities issued by other investment companies, including exchange-traded funds ( ETFs ) that invest primarily in municipal securities, involves risks similar to those of investing directly in the securities in which those investment companies invest. To the extent the Fund invests in securities of other investment companies, Fund stock holders will indirectly pay a portion of the operating costs of such companies, in addition to the expenses that the Fund bears directly in connection with its own operation. The Fund may invest up to 10% of its assets in securities that have the economic effects of leverage which can increase the risk and volatility of the Fund.*

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

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

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

- <sup>i</sup> Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- <sup>ii</sup> The Federal Reserve Board (the Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- <sup>iii</sup> The Bloomberg Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- <sup>iv</sup> The Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- <sup>v</sup> The Bloomberg Barclays Five-Year Municipal Bond Index is a market value weighted index representative of the medium term (four to six years) tax-exempt bond market.
- <sup>vi</sup> Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any), from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- <sup>vii</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2017, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 funds in the Fund's Lipper category.
- <sup>viii</sup> The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.



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**Fund at a glance** (unaudited)

**Investment breakdown** (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of November 30, 2017 and November 30, 2016 and does not include derivatives such as futures contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at anytime.

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## Spread duration (unaudited)

**Economic exposure** November 30, 2017

**Total Spread Duration**

MTT 3.92 years

Benchmark 5.90 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 portfolio and the exposure relative to the selected benchmark as of the end of the reporting period.

Benchmark Bloomberg Barclays Municipal Bond Index  
MTT Western Asset Municipal Defined Opportunity Trust Inc.



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**Effective duration** (unaudited)

**Interest rate exposure** November 30, 2017

**Total Effective Duration**

MTT 4.28 years

Benchmark 5.97 years

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

Benchmark Bloomberg Barclays Municipal Bond Index

MTT Western Asset Municipal Defined Opportunity Trust Inc.

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November 30, 2017

**Western Asset Municipal Defined Opportunity Trust Inc.**

	Rate	Maturity Date	Face Amount	Value
Security				
<b>Municipal Bonds 99.3%</b>				
<i>Alabama 3.1%</i>				
Jefferson County, AL, Sewer Revenue, Convertible CAB, Subordinated Lien, Step bond, 0.000% until 10/1/23; 7.900%	0.000%	10/1/50	\$ 9,470,000	\$ 7,845,516
<i>Arizona 3.5%</i>				
Navajo Nation, AZ, Revenue	5.000%	12/1/25	350,000	377,020 <sup>(a)</sup>
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.000%	12/1/32	7,110,000	8,596,132
<i>Total Arizona</i>				<i>8,973,152</i>
<i>California 4.0%</i>				
California State PCFA, Water Furnishing Revenue	5.000%	11/21/45	3,500,000	3,786,195 <sup>(a)(b)</sup>
California State, GO, Various Purpose	4.000%	11/1/36	250,000	269,063
California Statewide CDA, Student Housing Revenue, Provident Group-Pomona Properties LLC	5.600%	1/15/36	790,000	853,208
Lower Tule River, CA, Irrigation District Revenue, COP	5.000%	8/1/40	1,000,000	1,063,880
M-S-R Energy Authority, CA, Gas Revenue	6.125%	11/1/29	2,000,000	2,527,720
River Islands, CA, Public Financing Authority Special Tax, Community Facilities District No. 2003-1	5.000%	9/1/27	725,000	756,914
University of California, CA, Revenue	4.000%	5/15/46	1,000,000	1,058,030
<i>Total California</i>				<i>10,315,010</i>
<i>Colorado 4.4%</i>				
Base Village Metropolitan District #2 Co., GO	5.750%	12/1/46	500,000	522,195
Colorado High Performance Transportation Enterprise Revenue, C-470 Express Lanes	5.000%	12/31/51	200,000	218,260
Colorado State Health Facilities Authority Revenue, Adventist Health System/Sunbelt Obligated Group	5.000%	11/15/23	3,000,000	3,456,540 <sup>(c)(d)</sup>
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.125%	11/15/23	6,000,000	7,075,080
<i>Total Colorado</i>				<i>11,272,075</i>
<i>Connecticut 0.1%</i>				
Connecticut State, GO	5.000%	10/15/34	280,000	318,156
<i>District of Columbia 0.1%</i>				
District of Columbia Revenue, Ingleside Rock Creek Project	4.125%	7/1/27	250,000	257,125
<i>Florida 0.9%</i>				
Florida State Municipal Power Agency Revenue, All Requirements Power	6.250%	10/1/31	1,000,000	1,084,600 <sup>(e)</sup>
Greater Orlando, FL, Aviation Authority, Airport Facilities Revenue	5.000%	10/1/42	500,000	578,080 <sup>(b)</sup>
Miami-Dade County, FL, Health Facilities Authority Hospital Revenue, Nicklaus Children's Hospital	5.000%	8/1/42	350,000	397,982
Orange County, FL, Health Facilities Authority Revenue, Presbyterian Retirement Communities	5.000%	8/1/47	250,000	275,250
<i>Total Florida</i>				<i>2,335,912</i>

See Notes to Financial Statements.

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November 30, 2017

**Western Asset Municipal Defined Opportunity Trust Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<i>Georgia 7.2%</i>				
Atlanta, GA, Water & Wastewater Revenue	6.000%	11/1/23	\$ 5,000,000	\$ 5,413,750 <sup>(e)</sup>
Atlanta, GA, Water & Wastewater Revenue	6.250%	11/1/34	3,260,000	3,545,022 <sup>(e)</sup>
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.125%	7/1/40	9,000,000	9,635,130 <sup>(e)</sup>
<i>Total Georgia</i>				<i>18,593,902</i>
<i>Illinois 5.7%</i>				
Chicago, IL, Board of Education, GO, Dedicated	5.000%	12/1/34	360,000	369,688
Chicago, IL, GO	5.000%	1/1/25	250,000	274,135
Chicago, IL, GO	5.500%	1/1/30	1,685,000	1,851,326
Chicago, IL, GO	6.000%	1/1/38	500,000	574,230
Chicago, IL, Motor Fuel Tax Revenue	5.000%	1/1/26	1,000,000	1,078,020
Chicago, IL, O Hare International Airport Revenue	5.000%	1/1/46	2,000,000	2,237,000
Chicago, IL, O Hare International Airport Revenue:				
General, Senior Lien	5.000%	1/1/35	250,000	285,615
Senior Lien	5.000%	1/1/47	500,000	570,390
Senior Lien	5.000%	1/1/52	500,000	565,340
Chicago, IL, Wastewater Transmission Revenue, Second Lien	5.000%	1/1/36	750,000	832,492
Chicago, IL, Waterworks Revenue, Second Lien	5.000%	11/1/29	600,000	698,268
<i>Illinois State Finance Authority Revenue:</i>				
Southern Illinois Healthcare Enterprises Inc.	5.000%	3/1/31	600,000	694,104
Southern Illinois Healthcare Enterprises Inc.	5.000%	3/1/32	300,000	345,225
Illinois State Toll Highway Authority Revenue	5.000%	1/1/42	800,000	919,392 <sup>(f)</sup>
Illinois State, GO	5.000%	2/1/26	1,000,000	1,076,180
Illinois State, GO	5.000%	2/1/27	250,000	269,200
Illinois State, GO	5.000%	2/1/29	600,000	643,698
Metropolitan Pier & Exposition Authority, IL, Dedicated State Tax Revenue, McCormick Project, State Appropriations	5.250%	6/15/50	1,000,000	1,034,900
Metropolitan Pier & Exposition Authority, IL, Revenue, CAB-McCormick Place Expansion Project	0.000%	12/15/52	1,000,000	179,110
<i>Total Illinois</i>				<i>14,498,313</i>
<i>Indiana 6.9%</i>				
Indiana Finance Authority, Wastewater Utility Revenue, CWA Authority Project	5.000%	10/1/41	675,000	772,767
Indiana Municipal Power Agency, Power Supply System Revenue	6.000%	1/1/39	8,000,000	8,381,520 <sup>(e)</sup>
Richmond, IN, Hospital Authority Revenue, Reid Hospital & Health Care Services Inc. Project	6.500%	1/1/29	8,000,000	8,419,520 <sup>(e)</sup>
<i>Total Indiana</i>				<i>17,573,807</i>

See Notes to Financial Statements.

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Security	Rate	Maturity Date	Face Amount	Value
<i>Louisiana 4.0%</i>				
Louisiana State Citizens Property Insurance Corp., Assessment Revenue, AGC				\$
	6.125%	6/1/25	\$ 10,000,000	10,236,700 <sup>(e)</sup>
<i>Maryland 4.1%</i>				
Howard County, MD, Housing Commission Revenue, Columbia Commons Apartments	5.000%	6/1/44	1,350,000	1,461,969
Maryland State Health & Higher EFA Revenue, Washington County Hospital Issue	5.750%	1/1/38	9,000,000	9,030,600 <sup>(e)</sup>
<i>Total Maryland</i>				10,492,569
<i>Massachusetts 0.1%</i>				
Massachusetts State DFA Revenue, UMass Boston Student Housing Project	5.000%	10/1/41	250,000	275,255
<i>Michigan 9.9%</i>				
Detroit, MI, Water Supply System Revenue:				
Second Lien, AGM	6.250%	7/1/36	2,995,000	3,212,167 <sup>(e)</sup>
Second Lien, AGM	6.250%	7/1/36	5,000	5,313
Michigan State Finance Authority Ltd. Obligation Revenue, Higher Education, Thomas M Cooley Law School Project	6.000%	7/1/24	1,500,000	1,589,640 <sup>(a)</sup>
Michigan State Finance Authority Revenue:				
Local Government Loan Program, Detroit Water & Sewer Department	5.000%	7/1/33	350,000	392,822
Senior Lien Detroit Water & Sewer	5.000%	7/1/33	410,000	455,748
Michigan State Hospital Finance Authority Revenue, McLaren Health Care Corp.	5.750%	5/15/38	9,000,000	9,181,170 <sup>(e)</sup>
Royal Oak, MI, Hospital Finance Authority Revenue:				
William Beaumont Hospital	5.000%	9/1/39	2,000,000	2,206,100
William Beaumont Hospital	8.250%	9/1/39	8,000,000	8,408,160 <sup>(e)</sup>
<i>Total Michigan</i>				25,451,120
<i>New Jersey 6.2%</i>				
Gloucester County, NJ, PCFA Revenue, Keystone Urban Renewal, Logan Generating	5.000%	12/1/24	750,000	814,395 <sup>(b)</sup>
New Jersey State EDA Revenue	5.000%	6/15/34	1,500,000	1,639,020
New Jersey State EDA Revenue, Continental Airlines Inc. Project	4.875%	9/15/19	665,000	688,508 <sup>(b)</sup>
New Jersey State EFA Revenue, University of Medicine & Dentistry	7.500%	12/1/32	10,000,000	10,864,700 <sup>(e)</sup>
New Jersey State Health Care Facilities Financing Authority Revenue, Hackensack Meridian Health	5.000%	7/1/38	125,000	144,992
New Jersey State Transportation Trust Fund Authority Revenue, Capital Appreciation Transportation System, NATL	0.000%	12/15/31	3,000,000	1,702,200
<i>Total New Jersey</i>				15,853,815

See Notes to Financial Statements.

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November 30, 2017

**Western Asset Municipal Defined Opportunity Trust Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<i>New York 8.7%</i>				
Hudson, NY, Yards Infrastructure Corp. Revenue	5.000%	2/15/36	\$ 1,000,000	\$ 1,168,420
Liberty, NY, Development Corp. Revenue, Goldman Sachs Headquarters	5.250%	10/1/35	2,500,000	3,164,525
MTA Hudson Rail Yards Trust Obligations Revenue	5.000%	11/15/51	1,250,000	1,348,187
MTA, NY, Dedicated Tax Fund Revenue, Green Bonds	5.000%	11/15/47	500,000	579,495
New York State Convention Center Development Corp. Revenue, CAB, Subordinated Lien, Hotel Unit Fee Secured	0.000%	11/15/32	2,000,000	1,165,640
New York State Dormitory Authority, State Personal Income Tax Revenue	5.000%	2/15/37	1,000,000	1,180,070 <sup>(g)</sup>
New York State Liberty Development Corp., Liberty Revenue, 3 World Trade Center LLC Project	5.000%	11/15/44	575,000	618,591 <sup>(a)</sup>
New York State Thruway Authority General Revenue, Junior Indebtedness Obligations, Junior Lien	5.000%	1/1/46	1,000,000	1,139,380
New York State Transportation Development Corp., Special Facilities Revenue, LaGuardia Airport Terminal B Redevelopment Project	5.000%	7/1/46	3,000,000	3,284,310 <sup>(b)</sup>
Port Authority of New York & New Jersey, Special Obligation Revenue, JFK International Air Terminal LLC	5.500%	12/1/31	7,925,000	8,696,261
<i>Total New York</i>				<i>22,344,879</i>
<i>North Carolina 0.4%</i>				
North Carolina State Turnpike Authority Monroe Expressway Toll Revenue	5.000%	7/1/54	750,000	821,063
North Carolina State Turnpike Authority Revenue, Senior Lien	5.000%	1/1/30	100,000	117,346
<i>Total North Carolina</i>				<i>938,409</i>
<i>Oklahoma 0.0%</i>				
Payne County, OK, EDA Revenue, Epworth Living at The Ranch	6.250%	11/1/31	170,000	127,007
<i>Oregon 0.3%</i>				
Oregon State Facilities Authority Revenue, Legacy Health Project	5.000%	6/1/46	650,000	733,935
<i>Pennsylvania 4.9%</i>				
Cumberland County, PA, Municipal Authority Revenue, Diakon Lutheran Social Ministries Project	5.000%	1/1/27	1,000,000	1,133,430
Pennsylvania Economic Development Financing Authority, Water Facility Revenue, American Water Co. Project	6.200%	4/1/39	10,000,000	10,555,600
State Public School Building Authority PA, Lease Revenue:				
Philadelphia School District Project, AGM	5.000%	6/1/31	200,000	225,934
Philadelphia School District Project, AGM	5.000%	6/1/33	550,000	616,775
<i>Total Pennsylvania</i>				<i>12,531,739</i>
<i>Rhode Island 4.2%</i>				
Rhode Island State Health & Educational Building Corp. Revenue, Hospital Financing	7.000%	5/15/39	10,000,000	10,782,900 <sup>(e)</sup>

See Notes to Financial Statements.

**Table of Contents****Western Asset Municipal Defined Opportunity Trust Inc.**

Security	Rate	Maturity Date	Face Amount	Value
<i>Texas 12.6%</i>				
Arlington, TX, Higher Education Finance Corp., Education Revenue, Uplift Education, PSF-GTD	5.000%	12/1/35	\$ 300,000	\$ 348,432
Brazos River, TX, Harbor Navigation District Revenue, Brazoria County Environmental, Dow Chemical Co. Project	5.950%	5/15/33	10,000,000	10,424,500 <sup>(b)</sup>
Clifton, TX, Higher Education Finance Corp., Education Revenue, IDEA Public Schools, PSF-GTD	5.000%	8/15/35	2,400,000	2,802,960
Love Field, TX, Airport Modernization Corp., General Airport Revenue	5.000%	11/1/31	120,000	139,043 <sup>(b)</sup>
Love Field, TX, Airport Modernization Corp., Special Facilities Revenue, Southwest Airlines Co. Project	5.250%	11/1/40	3,000,000	3,288,360
North Texas Tollway Authority Revenue	5.750%	1/1/33	8,500,000	8,528,900 <sup>(e)</sup>
North Texas Tollway Authority Revenue, First Tier	5.000%	1/1/43	2,000,000	2,326,620
Tarrant County, TX, Cultural Education Facilities Finance Corp., Retirement Facility Revenue, Buckner Senior Living Ventana Project	6.625%	11/15/37	190,000	212,106
Texas State Municipal Gas Acquisition & Supply Corp. I, Gas Supply Revenue	6.250%	12/15/26	1,310,000	1,594,794
Texas State Private Activity Bond Surface Transportation Corp. Revenue, Senior Lien, Blueridge Transportation Group LLC	5.000%	12/31/40	500,000	554,200 <sup>(b)</sup>
Texas State Water Development Board Revenue	5.000%	10/15/42	1,500,000	1,776,975
Woodloch Health Facilities Development Corp., TX, Senior Housing Revenue: Inspired Living Lewsville Project	6.750%	12/1/51	300,000	318,456 <sup>(a)</sup>
Inspired Living Lewsville Project	10.000%	12/1/51	50,000	49,474
<i>Total Texas</i>				<i>32,364,820</i>
<i>U.S. Virgin Islands 0.9%</i>				
Virgin Islands Public Finance Authority Revenue, Matching Fund Loan	6.625%	10/1/29	4,000,000	2,190,000
<i>Utah 0.1%</i>				
Utah State Charter School Finance Authority, Charter School Revenue, Syracuse Arts Academy Project, UT CSCE	5.000%	4/15/47	250,000	279,090
<i>Virginia 1.3%</i>				
Virginia State Port Authority Port Facility Revenue	5.000%	7/1/41	400,000	454,252 <sup>(b)</sup>
Virginia State Port Authority Port Facility Revenue	5.000%	7/1/45	500,000	563,815 <sup>(b)</sup>
Virginia State Small Business Financing Authority Revenue: Elizabeth River Crossings OpCo LLC Project	5.000%	7/1/23	1,775,000	1,985,231 <sup>(b)</sup>
Senior Lien, 95 Express Lanes LLC	5.000%	1/1/40	400,000	429,352 <sup>(b)</sup>
<i>Total Virginia</i>				<i>3,432,650</i>

See Notes to Financial Statements.

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

November 30, 2017

**Western Asset Municipal Defined Opportunity Trust Inc.**

	Rate	Maturity Date	Face Amount	Value
<b>Security</b>				
<i>Washington 0.9%</i>				
Washington State HFC Revenue:				
Heron s Key	5.500%	1/1/24	\$ 500,000	\$ 500,255 <sup>(a)</sup>
Heron s Key	6.000%	7/1/25	675,000	714,920 <sup>(a)</sup>
Washington State, GO	5.000%	8/1/33	1,000,000	1,194,510 <sup>(f)</sup>
<i>Total Washington</i>				<i>2,409,685</i>
<i>Wisconsin 4.8%</i>				
Public Finance Authority, WI, Ltd. Obligation Pilot Revenue, American Dream @ Meadowlands Project	5.000%	12/1/27	1,500,000	1,651,110 <sup>(a)</sup>
Wisconsin State HEFA Revenue, Prohealth Care Inc. Obligation Group	6.625%	2/15/39	10,000,000	10,592,000 <sup>(e)</sup>
<i>Total Wisconsin</i>				<i>12,243,110</i>
<b>Total Investments before Short-Term Investments (Cost \$230,803,562)</b>				<b>254,670,651</b>
<b>Short-Term Investments 0.3%</b>				
<b>Municipal Bonds 0.3%</b>				
<i>New York 0.3%</i>				
New York State Urban Development Corp. Revenue, SPA-JPMorgan Chase (Cost \$700,000)	0.990%	3/15/33	700,000	<b>700,000</b> <sup>(b)(i)</sup>
			Shares	
<b>Money Market Funds 0.0%</b>				
State Street Institutional U.S. Government Money Market Fund, Premier Class (Cost \$84,531)	1.013%		84,531	<b>84,531</b>
<b>Total Short-Term Investments (Cost \$784,531)</b>				<b>784,531</b>
<b>Total Investments 99.6% (Cost \$231,588,093)</b>				<b>255,455,182</b>
Other Assets in Excess of Liabilities 0.4%				1,009,018
<b>Total Net Assets 100.0%</b>				<b>\$ 256,464,200</b>

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

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

(c) Variable rate security. Interest rate disclosed is as of the most recent information available. Certain variable rate securities are not based on a published reference rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description above.

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

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

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(f) Securities traded on a when-issued or delayed delivery basis.

(g) All or a portion of this security is held at the broker as collateral for open futures contracts.

(h) Variable rate demand obligations ( VRDOs ) have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice. The interest rate generally resets on a daily or weekly basis and is

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**Western Asset Municipal Defined Opportunity Trust Inc.**

determined on the specific interest rate reset date by the Remarketing Agent, pursuant to a formula specified in official documents for the VRDO, or set at the highest rate allowable as specified in official documents for the VRDO. VRDOs are benchmarked to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index. The SIFMA Municipal Swap Index is compiled from weekly interest rate resets of tax-exempt VRDOs reported to the Municipal Securities Rulemaking Board's Short-term Obligation Rate Transparency System.

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

**Abbreviations used in this schedule:**

AGC	Assured Guaranty Corporation Insured Bonds
AGM	Assured Guaranty Municipal Corporation Insured Bonds
CAB	Capital Appreciation Bonds
CDA	Communities Development Authority
COP	Certificates of Participation
CSCE	Charter School Credit Enhancement
DFA	Development Finance Agency
EDA	Economic Development Authority
EFA	Educational Facilities Authority
GO	General Obligation
GTD	Guaranteed
HEFA	Health & Educational Facilities Authority
HFC	Housing Finance Commission
MTA	Metropolitan Transportation Authority
NATL	National Public Finance Guarantee Corporation Insured Bonds
PCFA	Pollution Control Financing Authority
PSF	Permanent School Fund
SPA	Standby Bond Purchase Agreement Insured Bonds

At November 30, 2017, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Notional Amount	Market Value	Unrealized Depreciation
<b>Contracts to Buy:</b>					
U.S. Treasury Long-Term Bonds	40	3/18	\$ 6,117,728	\$ 6,068,750	\$ (48,978)

**Ratings Table\* (unaudited)**

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

AAA/Aaa	9.9%
AA/Aa	16.9
A	32.7
BBB/Baa	26.2
BB/Ba	1.0
CCC/Caa	0.9
A-1/VMIG 1	0.3
NR***	12.1
	<b>100.0%</b>

See Notes to Financial Statements.

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## Schedule of investments (cont d)

November 30, 2017

### Western Asset Municipal Defined Opportunity Trust Inc.

\* As a percentage of total investments.

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

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

[See Notes to Financial Statements.](#)

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

November 30, 2017

<b>Assets:</b>	
Investments, at value (Cost \$231,588,093)	\$ 255,455,182
Interest receivable	3,925,229
Receivable for securities sold	832,895
Prepaid expenses	6,461
<b>Total Assets</b>	<b>260,219,767</b>
<b>Liabilities:</b>	
Payable for securities purchased	2,520,410
Income distribution payable	1,021,575
Investment management fee payable	127,355
Payable to broker - variation margin on open futures contracts	18,750
Directors' fees payable	4,756
Accrued expenses	62,721
<b>Total Liabilities</b>	<b>3,755,567</b>
<b>Total Net Assets</b>	<b>\$ 256,464,200</b>
<b>Net Assets:</b>	
Par value (\$0.001 par value; 12,161,604 shares issued outstanding; 100,000,000 shares authorized)	\$ 12,162
Paid-in capital in excess of par value	232,536,499
Undistributed net investment income	1,524,467
Accumulated net realized loss on investments and futures contracts	(1,427,039)
Net unrealized appreciation on investments and futures contracts	23,818,111
<b>Total Net Assets</b>	<b>\$ 256,464,200</b>
<b>Shares Outstanding</b>	<b>12,161,604</b>
<b>Net Asset Value</b>	<b>\$21.09</b>