

DWS STRATEGIC MUNICIPAL INCOME TRUST
Form N-CSRS
August 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number: 811-05767

DWS Strategic Municipal Income Trust
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, NY 10154-0004
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 250-3220

Paul Schubert
60 Wall Street
New York, NY 10005
(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 5/31/2014

ITEM 1. REPORT TO STOCKHOLDERS

May 31, 2014

Semiannual Report

to Shareholders

DWS Strategic Municipal Income Trust

(On August 11, 2014, DWS Strategic Municipal Income Trust will be renamed Deutsche Strategic Municipal Income Trust.)

Ticker Symbol: KSM

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The fund's investment objective is to provide a high level of current income exempt from federal income tax.

Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Leverage results in additional risks and can magnify the effect of any gains or losses. Although the fund seeks income that is exempt from federal income taxes, a portion of the fund's distributions may be subject to federal, state and local taxes, including the alternative minimum tax.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DWS Investments Distributors, Inc.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary May 31, 2014 (Unaudited)

Performance is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit dws-investments.com for the Fund's most recent month-end performance.

Fund specific data and performance are provided for informational purposes only and are not intended for trading purposes.

Average Annual Total Returns as of 5/31/14

| DWS Strategic Municipal Income Trust | 6-Month [‡] | 1-Year | 5-Year | 10-Year |
|---|----------------------|--------|--------|---------|
| Based on Net Asset Value(a) | 10.73% | 2.83% | 11.70% | 8.48% |
| Based on Market Price(a) | 14.99% | 0.54% | 12.55% | 8.88% |
| Barclays Municipal Bond Index(b) | 5.63% | 3.05% | 5.59% | 5.00% |
| Morningstar Closed-End High-Yield Municipal Funds Category(c) | 11.01% | 3.47% | 11.69% | 6.74% |

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‡ Total returns shown for periods less than one year are not annualized.

(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market price reflects changes in market price. Each figure assumes that dividend and capital gain distributions, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period. Expenses of the Fund include management fee, interest expense and other fund expenses. Total returns shown take into account these fees and expenses. The annualized expense ratio of the Fund for the six months ended May 31, 2014 was 1.76% (1.22% excluding interest expense).

(b) The unmanaged, unleveraged Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

(c) Morningstar's Closed-End High-Yield Municipal Funds category represents high-yield muni portfolios that typically invest at least 50% of assets in high-income municipal securities that are not rated or that are rated by a major agency such as Standard & Poor's or Moody's at the level of BBB and below (considered part of the high-yield universe within the municipal industry). Morningstar figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Morningstar, Inc. as falling into the Closed-End High-Yield Municipal Funds category. Category returns assume reinvestment of all distributions. It is not possible to invest directly in a Morningstar category.

Net Asset Value and Market Price

| | As of 5/31/14 | As of 11/30/13 |
|-----------------|------------------|-------------------|
| Net Asset Value | \$13.37 | \$12.52 |
| Market Price | \$13.54 | \$12.21 |

Prices and net asset value fluctuate and are not guaranteed.

Distribution Information

Six Months as of 5/31/14:

| | | |
|--|----------|---|
| Income Dividends (common shareholders) | \$.46 | |
| Capital Gain Distributions | \$.01 | |
| May Income Dividend (common shareholders) | \$.0770 | |
| Current Annualized Distribution Rate (Based on Net Asset Value) as of 5/31/14† | 6.91 | % |
| Current Annualized Distribution Rate (Based on Market Price) as of 5/31/14† | 6.82 | % |
| Tax Equivalent Distribution Rate (Based on Net Asset Value) as of 5/31/14† | 12.21 | % |
| Tax Equivalent Distribution Rate (Based on Market Price) as of 5/31/14† | 12.05 | % |

† Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on May 31, 2014. Distribution rate simply measures the level of dividends and is not a complete measure of performance. Tax equivalent distribution rate is based on the Fund's distribution rate and a marginal income tax rate of 43.4%. Distribution rates are historical, not guaranteed and will fluctuate. Distributions do not include return of capital or other non-income sources.

Portfolio Management Team

Philip G. Condon, Managing Director

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Co-Lead Portfolio Manager of the fund. Began managing the fund in 1998.

— Joined Deutsche Asset & Wealth Management in 1983.

— Head of Municipal Bonds.

— BA and MBA, University of Massachusetts at Amherst.

Rebecca L. Flinn, Director

Co-Lead Portfolio Manager of the fund. Began managing the fund in 1998.

— Joined Deutsche Asset & Wealth Management in 1986.

— BA, University of Redlands, California.

Portfolio Summary (Unaudited)

Investment Portfolio as of May 31, 2014 (Unaudited)

| | Principal Amount (\$) | Value (\$) |
|---|-----------------------------|------------|
| Municipal Bonds and Notes 140.2% | | |
| Arizona 1.2% | | |
| Maricopa County, AZ, Pollution Control Corp. Revenue, El Paso Electric Co. Project, Series B, 7.25%, 4/1/2040 | 1,570,000 | 1,793,348 |
| California 12.3% | | |
| California, Health Facilities Financing Authority Revenue, Catholic Healthcare West, Series A, 6.0%, 7/1/2034 | 1,000,000 | 1,136,720 |
| California, M-S-R Energy Authority, Series B, 7.0%, 11/1/2034, GTY: Citigroup, Inc. | 1,310,000 | 1,780,892 |
| California, Morongo Band of Mission Indians, Enterprise Casino Revenue, Series B, 6.5%, 3/1/2028 | 1,000,000 | 1,092,980 |
| California, South Bayside Waste Management Authority, Solid Waste Enterprise, Shoreway Environmental, Series A, 6.25%, 9/1/2029 | 1,425,000 | 1,637,610 |
| California, State General Obligation: | | |
| 5.25%, 4/1/2035 | 1,230,000 | 1,401,204 |
| 5.5%, 3/1/2040 | 1,000,000 | 1,154,850 |
| 5.75%, 4/1/2031 | 1,000,000 | 1,185,450 |
| 6.0%, 4/1/2038 | 1,000,000 | 1,181,710 |
| 6.5%, 4/1/2033 | 1,950,000 | 2,390,349 |
| California, State Public Works Board Lease Revenue, Capital Projects, Series I-1, 6.375%, 11/1/2034 | 1,000,000 | 1,205,530 |
| California, State Public Works Board Lease Revenue, Riverside Campus Project, Series B, 6.125%, 4/1/2028 | 2,000,000 | 2,393,520 |
| Riverside County, CA, Transportation Commission Toll Revenue Senior Lien, Series A, 5.75%, 6/1/2048 | 1,000,000 | 1,102,980 |
| | 500,000 | 579,610 |

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| | | |
|---|-----------|------------|
| San Buenaventura, CA, Community Memorial Health Systems, 7.5%, 12/1/2041 | | 18,243,405 |
| Colorado 2.1% | | |
| Colorado, Public Energy Authority, Natural Gas Purchased Revenue, 6.25%, 11/15/2028, GTY: Merrill Lynch & Co., Inc. | 635,000 | 796,303 |
| Colorado, State Health Facilities Authority Revenue, Covenant Retirement Communities, Series A, 5.0%, 12/1/2033 | 440,000 | 456,346 |
| Colorado, State Health Facilities Authority Revenue, School Health Systems, Series A, 5.5%, 1/1/2035 | 1,000,000 | 1,162,980 |
| Denver, CO, City & County Airport Revenue, Series A, AMT, 5.25%, 11/15/2043 | 600,000 | 645,108 |
| | | 3,060,737 |
| Connecticut 2.3% | | |
| Connecticut, Harbor Point Infrastructure Improvement District, Special Obligation Revenue, Harbor Point Project, Series A, 7.875%, 4/1/2039 | 2,000,000 | 2,338,700 |
| Mashantucket, CT, Mashantucket Western Pequot Tribe, 7.093%, 7/1/2031 (PIK) | 2,279,575 | 1,144,210 |
| | | 3,482,910 |
| District of Columbia 0.8% | | |
| District of Columbia, Metropolitan Airport Authority Systems Revenue: Series A, AMT, 5.0%, 10/1/2038 | 200,000 | 217,312 |
| Series A, AMT, 5.0%, 10/1/2043 | 850,000 | 915,297 |
| | | 1,132,609 |
| Florida 11.0% | | |
| Collier County, FL, Industrial Development Authority, Continuing Care Community Revenue, Arlington of Naples Project, Series A, 8.125%, 5/15/2044 | 500,000 | 540,575 |
| Florida, Capital Region Community Development District, Capital Improvement Revenue, Series A, 7.0%, 5/1/2039 | 475,000 | 480,752 |
| Florida, Middle Village Community Development District, Special Assessment, Series A, 6.0%, 5/1/2035 | 955,000 | 793,156 |
| Florida, Tolomato Community Development District, Special Assessment: Series A-2, Step-up Coupon, 0% to 5/1/2017, 6.61% to 5/1/2039 | 50,000 | 36,687 |
| Series A-3, Step-up Coupon, 0% to 5/1/2019, 6.61% to 5/1/2040 | 110,000 | 65,791 |
| Series A-4, Step-up Coupon, 0% to 5/1/2022, 6.61% to 5/1/2040 | 55,000 | 24,370 |
| 5.4%, 5/1/2037 | 1,645,000 | 1,650,034 |
| Series 1, 6.55%, 5/1/2027* | 10,000 | 10,177 |
| Series 2, 6.55%, 5/1/2027* | 400,000 | 239,344 |
| Series 3, 6.55%, 5/1/2027* | 130,000 | 1 |
| Series A-1, 6.55%, 5/1/2027 | 170,000 | 170,204 |
| Florida, Village Community Development District No. 9, Special Assessment Revenue, 5.5%, 5/1/2042 | 165,000 | 178,467 |
| Hillsborough County, FL, Industrial Development Authority Revenue, Health Facilities, University Community Hospital, Series A, Prerefunded, 5.625%, 8/15/2029 | 1,875,000 | 2,226,600 |
| Martin County, FL, Health Facilities Authority, Martin Memorial Medical Center, 5.5%, 11/15/2042 | 335,000 | 359,971 |
| Miami Beach, FL, Health Facilities Authority, Mount Sinai Medical Center: 6.75%, 11/15/2029 | 1,385,000 | 1,422,174 |

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| Prerefunded, 6.75%, 11/15/2029 | 215,000 | 221,420 |
| Miami-Dade County, FL, Aviation Revenue: | | |
| Series A, AMT, 5.0%, 10/1/2031 | 30,000 | 32,628 |
| Series A, 5.5%, 10/1/2041 | 3,000,000 | 3,336,180 |
| Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2035 | 1,080,000 | 1,167,156 |
| Tampa-Hillsborough County, FL, Expressway Authority: | | |
| Series A, 5.0%, 7/1/2031 | 1,500,000 | 1,664,475 |
| Series A, 5.0%, 7/1/2037 | 1,590,000 | 1,728,060 |
| | | 16,348,222 |
| Georgia 6.6% | | |
| Americus-Sumter County, GA, Hospital Authority, Magnolia Manor Obligated Group, Series A, 6.25%, 5/15/2033 | 1,000,000 | 1,049,580 |
| Atlanta, GA, Airport Revenue, Series C, AMT, 5.0%, 1/1/2037 | 375,000 | 398,183 |
| Atlanta, GA, Tax Allocation, Beltline Project, Series B, 7.375%, 1/1/2031 | 1,000,000 | 1,181,650 |
| Atlanta, GA, Water & Wastewater Revenue, Series A, 6.25%, 11/1/2034 | 2,000,000 | 2,369,280 |
| DeKalb County, GA, Water & Sewer Revenue, Series A, 5.25%, 10/1/2036 | 1,000,000 | 1,122,970 |
| Gainesville & Hall County, GA, Development Authority Retirement Community Revenue, ACTS Retirement Life Community, Series A-2, 6.625%, 11/15/2039 | 1,000,000 | 1,112,540 |
| Georgia, Main Street Natural Gas, Inc., Gas Project Revenue, Series A, 5.5%, 9/15/2024, GTY: Merrill Lynch & Co., Inc. | 1,220,000 | 1,433,890 |
| Georgia, Medical Center Hospital Authority Revenue, Anticipation Certificates, Columbus Regional Healthcare System, 6.5%, 8/1/2038, INS: AGC | 1,000,000 | 1,127,590 |
| | | 9,795,683 |
| Guam 2.3% | | |
| Guam, Government General Obligation, Series A, 7.0%, 11/15/2039 | 1,000,000 | 1,089,510 |
| Guam, Government Waterworks Authority, Water & Wastewater System Revenue, 6.0%, 7/1/2025 | 1,000,000 | 1,021,760 |
| Guam, International Airport Authority Revenue, Series C, AMT, 6.375%, 10/1/2043 | 215,000 | 240,566 |
| Guam, Power Authority Revenue, Series A, 5.5%, 10/1/2030 | 1,000,000 | 1,106,740 |
| | | 3,458,576 |
| Hawaii 0.4% | | |
| Hawaii, State Department of Budget & Finance, Special Purpose Revenue, Hawaiian Electric Co., Inc., 6.5%, 7/1/2039, GTY: Hawaiian Electric Co., Inc. | 500,000 | 560,655 |
| Idaho 0.2% | | |
| Idaho, Health Facilities Authority Revenue, St. Luke's Regional Medical Center, 6.75%, 11/1/2037 | 305,000 | 344,186 |
| Illinois 6.7% | | |
| Chicago, IL, Airport Revenue, O'Hare International Airport Revenue, Series B, 6.0%, 1/1/2041 | 2,000,000 | 2,298,740 |
| Chicago, IL, General Obligation, Series A, 5.25%, 1/1/2035 | 1,000,000 | 1,040,280 |
| Illinois, Finance Authority Revenue, Friendship Village of Schaumburg, Series A, 5.625%, 2/15/2037 | 2,000,000 | 1,916,400 |
| Illinois, Finance Authority Revenue, Park Place of Elmhurst, Series A, 8.0%, 5/15/2030 | 1,000,000 | 685,000 |
| | 1,000,000 | 1,001,340 |

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| Illinois, Finance Authority Revenue, The Admiral at Lake Project, Series A, 8.0%, 5/15/2040 | | |
| Illinois, Finance Authority Revenue, Three Crowns Park Plaza, Series A, 5.875%, 2/15/2038 | 1,000,000 | 1,004,610 |
| Illinois, Metropolitan Pier & Exposition Authority Revenue, McCormick Place Project, Series A, 5.0%, 6/15/2042 | 300,000 | 317,805 |
| Illinois, Railsplitter Tobacco Settlement Authority, 6.0%, 6/1/2028 | 365,000 | 428,039 |
| Illinois, State Finance Authority Revenue, Trinity Health Corp., Series L, 5.0%, 12/1/2030 | 1,000,000 | 1,110,420 |
| Illinois, State General Obligation, 5.5%, 7/1/2038 | 130,000 | 142,497 |
| | | 9,945,131 |
| Indiana 2.7% | | |
| Indiana, Finance Authority Hospital Revenue, Deaconess Hospital Obligation, Series A, 6.75%, 3/1/2039 | 525,000 | 595,387 |
| Indiana, State Finance Authority Revenue, Community Foundation of Northwest Indiana, 5.0%, 3/1/2041 | 1,000,000 | 1,056,470 |
| Indiana, State Finance Authority Revenue, Greencroft Obligation Group, Series A, 7.0%, 11/15/2043 | 460,000 | 496,607 |
| Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project, AMT, 7.0%, 1/1/2044, GTY: Pratt Industries (U.S.A.) | 780,000 | 871,767 |
| Vigo County, IN, Hospital Authority Revenue, Union Hospital, Inc., 5.7%, 9/1/2037 | 1,000,000 | 998,880 |
| | | 4,019,111 |
| Iowa 1.4% | | |
| Iowa, Finance Authority Retirement Community Revenue, Edgewater LLC Project, 6.5%, 11/15/2027 | 1,000,000 | 1,041,920 |
| Iowa, State Finance Authority, Midwestern Disaster Area Revenue, Fertilizer Co. Project, 5.25%, 12/1/2025 | 1,000,000 | 1,045,660 |
| | | 2,087,580 |
| Kansas 0.2% | | |
| Lenexa, KS, Health Care Facility Revenue, Lakeview Village, Inc. Project, 7.25%, 5/15/2039 | 300,000 | 332,082 |
| Kentucky 5.2% | | |
| Kentucky, Economic Development Finance Authority, Hospital Facilities Revenue, Owensboro Medical Health Systems, Series A, 6.5%, 3/1/2045 | 2,000,000 | 2,246,340 |
| Kentucky, Economic Development Finance Authority, Louisville Arena Project Revenue, Series A-1, 6.0%, 12/1/2033, INS: AGC | 365,000 | 387,663 |
| Kentucky, Public Transportation Infrastructure Authority Toll Revenue, 1st Tier-Downtown Crossing, Series A, 6.0%, 7/1/2053 | 1,440,000 | 1,611,403 |
| Louisville & Jefferson County, KY, Metropolitan Government Health Systems Revenue, Norton Healthcare, Inc., 5.0%, 10/1/2030 | 3,425,000 | 3,506,618 |
| | | 7,752,024 |
| Louisiana 1.9% | | |
| Louisiana, Local Government Environmental Facilities, Community Development Authority Revenue, 6.75%, 11/1/2032 | 1,000,000 | 1,127,050 |
| Louisiana, St. John Baptist Parish Revenue, Marathon Oil Corp., Series A, 5.125%, 6/1/2037 | 1,500,000 | 1,571,085 |
| Louisiana, Tobacco Settlement Financing Corp. Revenue, Series A, 5.25%, 5/15/2035 | 180,000 | 192,737 |
| | | 2,890,872 |
| Maine 0.7% | | |

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| Maine, Health & Higher Educational Facilities Authority Revenue, Maine General Medical Center, 6.75%, 7/1/2036 | 1,000,000 | 1,108,320 |
| Maryland 4.0% | | |
| Maryland, Economic Development Corp., Pollution Control Revenue, Potomac Electric Power Co., 6.2%, 9/1/2022 | 1,500,000 | 1,778,745 |
| Maryland, State Economic Development Corp. Revenue, Senior Lien Project, Chesapeake Bay: | | |
| Series A, 5.0%, 12/1/2031 | 1,000,000 | 499,680 |
| Series B, 5.25%, 12/1/2031 | 1,000,000 | 499,680 |
| Maryland, State Health & Higher Educational Facilities Authority Revenue, Anne Arundel Health Systems, Series A, 6.75%, 7/1/2039 | 500,000 | 603,290 |
| Maryland, State Health & Higher Educational Facilities Authority Revenue, Washington County Hospital: | | |
| 5.75%, 1/1/2033 | 1,000,000 | 1,038,580 |
| 6.0%, 1/1/2028 | 1,385,000 | 1,474,720 |
| | | 5,894,695 |
| Massachusetts 4.1% | | |
| Massachusetts, Industrial Development Revenue, Development Finance Agency, Series A, 7.1%, 7/1/2032 | 1,675,000 | 1,675,620 |
| Massachusetts, Project Revenue, Health & Educational Facilities Authority, Jordan Hospital, Series E, 6.75%, 10/1/2033 | 1,790,000 | 1,791,593 |
| Massachusetts, State Development Finance Agency Revenue, Linden Ponds, Inc. Facility: | | |
| Series B, 11/15/2056* | 505,485 | 2,275 |
| Series A-2, 5.5%, 11/15/2046 | 101,629 | 73,428 |
| Series A-1, 6.25%, 11/15/2039 | 1,903,948 | 1,601,391 |
| Massachusetts, State Health & Educational Facilities Authority Revenue, Milford Regional Medical Center, Series E, 5.0%, 7/15/2037 | 950,000 | 956,498 |
| | | 6,100,805 |
| Michigan 6.0% | | |
| Detroit, MI, Water & Sewerage Department, Sewerage Disposal System Revenue, Series A, 5.25%, 7/1/2039 | 280,000 | 279,020 |
| Detroit, MI, Water Supply Systems Revenue, Series A, 5.75%, 7/1/2037 | 1,000,000 | 998,040 |
| Kalamazoo, MI, Economic Development Corp. Revenue, Limited Obligation, Heritage Community, 5.5%, 5/15/2036 | 1,000,000 | 959,390 |
| Kentwood, MI, Economic Development, Limited Obligation, Holland Home, Series A, 5.375%, 11/15/2036 | 2,000,000 | 2,003,700 |
| Michigan, State Building Authority Revenue, Facilities Program, Series I-A, 5.5%, 10/15/2045 | 2,000,000 | 2,239,320 |
| Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital, Prerefunded, 8.25%, 9/1/2039 | 1,000,000 | 1,304,070 |
| Tawas City, MI, Hospital Finance Authority, St. Joseph Health Services, Series A, ETM, 5.75%, 2/15/2023 | 1,200,000 | 1,205,484 |
| | | 8,989,024 |
| Minnesota 0.8% | | |
| Minneapolis, MN, Health Care Systems Revenue, Fairview Health Services, Series A, 6.75%, 11/15/2032 | 1,000,000 | 1,188,410 |
| Mississippi 1.2% | | |
| Lowndes County, MS, Solid Waste Disposal & Pollution Control Revenue, Weyerhaeuser Co. Project, Series A, 6.8%, 4/1/2022 | 250,000 | 298,530 |
| | 1,000,000 | 1,000,580 |

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|---|-----------|------------------------|
| Mississippi, Business Finance Corp., Pollution Control Revenue, Systems Energy Resources, Inc. Project, 5.875%, 4/1/2022 | | |
| Warren County, MS, Gulf Opportunity Zone, International Paper Co., Series A, 6.5%, 9/1/2032 | 435,000 | 485,756 1,784,866 |
| Missouri 1.8% | | |
| Missouri, State Health & Educational Facilities Authority Revenue, Lutheran Senior Services, Series C, 5.0%, 2/1/2042 | 2,000,000 | 2,030,300 |
| Missouri, State Health & Educational Facilities Authority, Health Facilities Revenue, Lester E Cox Medical Centers, Series A, 5.0%, 11/15/2048 | 150,000 | 160,615 |
| St. Louis, MO, Lambert-St. Louis International Airport Revenue, Series A-1, 6.625%, 7/1/2034 | 415,000 | 478,686 2,669,601 |
| Nevada 6.5% | | |
| Clark County, NV, School District, Series A, 5.0%, 6/15/2022, INS: NATL | 5,140,000 | 5,850,451 |
| Henderson, NV, Health Care Facility Revenue, Catholic Healthcare West, Series B, 5.25%, 7/1/2031 | 2,000,000 | 2,109,280 |
| Las Vegas Valley, NV, Water District, Series B, 5.0%, 6/1/2037 | 1,565,000 | 1,720,170 9,679,901 |
| New Hampshire 1.2% | | |
| New Hampshire, State Business Finance Authority, Solid Waste Disposal Revenue, Waste Management, Inc. Project, AMT, 5.2%, 5/1/2027 | 1,750,000 | 1,840,458 |
| New Jersey 5.8% | | |
| New Jersey, Economic Development Authority Revenue, Cigarette Tax, Prerefunded, 5.75%, 6/15/2034 | 290,000 | 290,679 |
| New Jersey, Health Care Facilities Financing Authority Revenue, St. Joseph's Health Care System, 6.625%, 7/1/2038 | 715,000 | 774,424 |
| New Jersey, State Economic Development Authority Revenue, The Goethals Bridge Replacement Project, AMT, 5.375%, 1/1/2043 | 1,000,000 | 1,072,230 |
| New Jersey, State Economic Development Authority, Continental Airlines, Inc. Project, AMT, 4.875%, 9/15/2019 | 880,000 | 901,366 |
| New Jersey, State Economic Development Authority, Special Facilities Revenue, Continental Airlines, Inc. Project, Series B, AMT, 5.625%, 11/15/2030 | 500,000 | 534,320 |
| New Jersey, State Transportation Trust Fund Authority, Series B, 5.5%, 6/15/2031 | 1,500,000 | 1,720,530 |
| New Jersey, Tobacco Settlement Financing Corp., Series 1A, 4.75%, 6/1/2034 | 4,280,000 | 3,371,655 8,665,204 |
| New York 8.5% | | |
| New York, Metropolitan Transportation Authority Revenue: Series D, 5.0%, 11/15/2038 | 275,000 | 301,581 |
| Series E, 5.0%, 11/15/2042 | 305,000 | 330,227 |
| New York & New Jersey, Port Authority, Special Obligation Revenue, JFK International Air Terminal LLC, 6.0%, 12/1/2042 | 680,000 | 759,254 |
| New York & New Jersey Port Authority, One Hundred Forty-Seventh, AMT, 5.0%, 10/15/2023, INS: NATL | 8,260,000 | 9,070,306 |
| New York City, NY, Industrial Development Agency, Special Facility Revenue, American Airlines, JFK International Airport, AMT, 8.0%, | 2,000,000 | 2,217,740 |

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8/1/2028, GTY: American Airlines Group

| | | |
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| | | 12,679,108 |
| North Carolina 0.8% | | |
| North Carolina, Medical Care Commission, Health Care Facilities Revenue, University Health Systems, Series D, 6.25%, 12/1/2033 | | |
| | 1,000,000 | 1,159,870 |
| Ohio 1.1% | | |
| Ohio, American Municipal Power, Inc. Revenue, Fremont Energy Center Project, Series B, 5.0%, 2/15/2037 | | |
| | 1,575,000 | 1,685,502 |
| Pennsylvania 3.1% | | |
| Butler County, PA, Hospital Authority Revenue, Butler Health Systems Project, 7.25%, 7/1/2039 | | |
| | 2,000,000 | 2,333,400 |
| Montgomery County, PA, Industrial Development Authority Revenue, Whitmarsh Continuing Care, 6.25%, 2/1/2035 | | |
| | 600,000 | 607,434 |
| Philadelphia, PA, Redevelopment Authority Revenue, First Lien Mortgage, Series A, 6.5%, 1/1/2029 | | |
| | 512,400 | 513,399 |
| Westmoreland County, PA, Industrial Development Authority Revenue, Retirement Community-Redstone, Series A, Prerefunded, 5.875%, 1/1/2032 | | |
| | 1,000,000 | 1,086,720 |
| | | 4,540,953 |
| Puerto Rico 7.0% | | |
| Commonwealth of Puerto Rico, Aqueduct & Sewer Authority Revenue, Series A, 6.0%, 7/1/2038 | | |
| | 4,000,000 | 3,202,360 |
| Puerto Rico, Electric Power Authority Revenue, Series A, 6.75%, 7/1/2036 | | |
| | 1,605,000 | 1,111,494 |
| Puerto Rico, General Obligation, Series A, 8.0%, 7/1/2035 | | |
| | 220,000 | 196,720 |
| Puerto Rico, Public Buildings Authority Revenue, Series Q, 5.625%, 7/1/2039 | | |
| | 1,000,000 | 721,160 |
| Puerto Rico, Sales Tax Financing Corp., Sales Tax Revenue: Series A, 5.5%, 8/1/2042 | | |
| | 1,000,000 | 814,370 |
| Series A, 6.0%, 8/1/2042 | | |
| | 1,000,000 | 869,920 |
| Series A, 6.375%, 8/1/2039 | | |
| | 2,000,000 | 1,824,280 |
| Puerto Rico, Sales Tax Financing Corp., Sales Tax Revenue, Convertible Capital Appreciation, Series A, Step-up Coupon, 0% to 8/1/2016, 6.75% to 8/1/2032 | | |
| | 2,000,000 | 1,627,560 |
| | | 10,367,864 |
| South Carolina 1.3% | | |
| Hardeeville, SC, Assessment Revenue, Anderson Tract Municipal Improvement District, Series A, 7.75%, 11/1/2039 | | |
| | 935,000 | 868,727 |
| South Carolina, State Public Service Authority Revenue, Santee Cooper, Series A, 5.75%, 12/1/2043 | | |
| | 890,000 | 1,047,156 |
| | | 1,915,883 |
| Tennessee 1.6% | | |
| Clarksville, TN, Natural Gas Acquisition Corp., Gas Revenue: 5.0%, 12/15/2017, GTY: Merrill Lynch & Co., Inc. | | |
| | 500,000 | 558,690 |
| 5.0%, 12/15/2018, GTY: Merrill Lynch & Co., Inc. | | |
| | 540,000 | 605,826 |
| Johnson City, TN, Health & Educational Facilities Board Hospital Revenue, Mountain States Health Alliance, Series A, 7.75%, 7/1/2038 | | |
| | 1,000,000 | 1,166,600 |
| | | 2,331,116 |
| Texas 18.7% | | |
| Brazos River, TX, Harbor Navigation District, Brazoria County Environmental Health, Dow Chemical Co. Project: | | |

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| | | |
|---|-----------|------------|
| Series B-2, 4.95%, 5/15/2033 | 1,000,000 | 1,066,920 |
| Series A-3, AMT, 5.125%, 5/15/2033 | 1,000,000 | 1,057,220 |
| Central Texas, Regional Mobility Authority Revenue, Series A, 5.0%, 1/1/2043 | 1,500,000 | 1,584,585 |
| Central Texas, Regional Mobility Authority Revenue, Senior Lien, 6.0%, 1/1/2041 | 545,000 | 605,876 |
| Dallas-Fort Worth, International Airport Revenue: | | |
| Series F, AMT, 5.0%, 11/1/2035 | 1,000,000 | 1,058,120 |
| Series D, AMT, 5.0%, 11/1/2038 | 2,000,000 | 2,106,880 |
| Houston, TX, Airport System Revenue, United Airlines, Inc., Terminal E Project, AMT, 4.75%, 7/1/2024 (a) | 615,000 | 626,131 |
| Houston, TX, Transportation/Tolls Revenue, Special Facilities, Continental Airlines, Inc., Series E, AMT, 6.75%, 7/1/2029 | 2,000,000 | 2,006,100 |
| Matagorda County, TX, Navigation District No. 1, Pollution Control Revenue, AEP Texas Central Co. Project, Series A, 4.4%, 5/1/2030, INS: AMBAC | 2,250,000 | 2,330,685 |
| North Texas, Tollway Authority Revenue, Toll Second Tier, Series F, 5.75%, 1/1/2033 | 2,000,000 | 2,213,240 |
| Red River, TX, Health Facilities Development Corp., Retirement Facilities Revenue, MRC Crossings Project, Series A, 8.0%, 11/15/2049 | 285,000 | 298,552 |
| Red River, TX, Health Facilities Development Corp., Retirement Facilities Revenue, Sears Methodist Retirement System Obligated Group Project, Series A, 5.45%, 11/15/2038 | 2,410,000 | 1,762,602 |
| San Antonio, TX, Convention Center Hotel Finance Corp., Contract Revenue, Empowerment Zone, Series A, AMT, 5.0%, 7/15/2039, INS: AMBAC | 1,000,000 | 1,002,160 |
| Tarrant County, TX, Cultural Education Facilities Finance Corp., Hospital Revenue, Scott & White Healthcare, 5.0%, 8/15/2043 | 2,100,000 | 2,263,674 |
| Tarrant County, TX, Cultural Education Facilities Finance Corp., Retirement Facility, Mirador Project, Series A, 8.25%, 11/15/2044 | 570,000 | 570,211 |
| Texas, Grand Parkway Transportation Corp., System Toll Revenue, Series B, 5.0%, 4/1/2053 | 500,000 | 535,590 |
| Texas, Love Field Airport Modernization Corp., Special Facilities Revenue, Southwest Airlines Co. Project, 5.25%, 11/1/2040 | 1,055,000 | 1,121,613 |
| Texas, SA Energy Acquisition Public Facility Corp., Gas Supply Revenue, 5.5%, 8/1/2020, GTY: The Goldman Sachs Group, Inc. | 2,000,000 | 2,324,840 |
| Texas, State Municipal Gas Acquisition & Supply Corp., III Gas Supply Revenue: | | |
| 5.0%, 12/15/2030 | 165,000 | 175,730 |
| 5.0%, 12/15/2031 | 1,000,000 | 1,057,640 |
| 5.0%, 12/15/2032 | 1,000,000 | 1,043,040 |
| Texas, State Private Activity Bond, Surface Transportation Corp. Revenue, Senior Lien, North Tarrant Express Mobility Partners Segments LLC, AMT, 6.75%, 6/30/2043 | 280,000 | 340,248 |
| Travis County, TX, Health Facilities Development Corp. Revenue, Westminster Manor Health, 7.125%, 11/1/2040 | 510,000 | 574,969 |
| | | 27,726,626 |
| Virgin Islands 1.1% | | |
| Virgin Islands, Public Finance Authority Revenue, Gross Receipts Tax Loan Note, Series A, 5.0%, 10/1/2032 | 1,500,000 | 1,620,270 |
| Virginia 1.8% | | |

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| | | |
|---|-----------|------------------------|
| Virginia, Route 460 Funding Corp., Toll Road Revenue, Series A, 5.0%, 7/1/2052 | 1,000,000 | 1,029,390 |
| Washington County, VA, Industrial Development Authority, Hospital Facility Revenue, Mountain States Health Alliance, Series C, 7.75%, 7/1/2038 | 1,370,000 | 1,601,379 2,630,769 |
| Washington 3.3% | | |
| Washington, State Health Care Facilities Authority Revenue, Series C, 5.375%, 8/15/2028, INS: Radian | 595,000 | 615,378 |
| Washington, State Health Care Facilities Authority Revenue, Virginia Mason Medical Center, Series A, 6.125%, 8/15/2037 | 2,000,000 | 2,112,440 |
| Washington, State Health Care Facilities Authority, Catholic Health Initiatives, Series A, 5.0%, 2/1/2041 | 1,000,000 | 1,058,580 |
| Washington, State Housing Finance Commission, Rockwood Retirement Communities Project, Series A, 7.375%, 1/1/2044 | 1,000,000 | 1,085,020 4,871,418 |
| Wisconsin 2.5% | | |
| Wisconsin, State Health & Educational Facilities Authority Revenue, Agnesian Healthcare, Inc., Series B, 5.0%, 7/1/2036 | 500,000 | 537,760 |
| Wisconsin, State Health & Educational Facilities Authority Revenue, Prohealth Care, Inc. Obligation Group, 6.625%, 2/15/2039 | 1,110,000 | 1,299,488 |
| Wisconsin, State Health & Educational Facilities Authority Revenue, Thedacare, Inc., Series A, 5.5%, 12/15/2038 | 1,765,000 | 1,899,034 3,736,282 |
| Total Municipal Bonds and Notes (Cost \$186,935,818) | | 208,434,076 |
| Municipal Inverse Floating Rate Notes (b) 11.8% | | |
| California 3.1% | | |
| San Diego County, CA, Water Authority Revenue, Certificates of Participation, Series 2008-A, 5.0%, 5/1/2027, INS: AGMC (c) | 2,121,349 | 2,403,225 |
| San Diego County, CA, Water Authority Revenue, Certificates of Participation, Series 2008-A, 5.0%, 5/1/2028, INS: AGMC (c) | 1,930,312 | 2,186,803 |
| Trust: San Diego County, CA, Water Utility Improvements, Certificates of Participation, Series 2008-1104, 144A, 9.344%, 11/1/2015, Leverage Factor at purchase date: 2 to 1 | | 4,590,028 |
| New York 4.1% | | |
| New York, State Dormitory Authority, State Personal Income Tax Revenue, Series A, 5.0%, 3/15/2023 (c) | 5,535,000 | 6,159,373 |
| Trust: New York, State Dormitory Authority Revenue, Secondary Issues, Series 1955-2, 144A, 18.213%, 3/15/2015, Leverage Factor at purchase date: 4 to 1 | | |
| Tennessee 4.6% | | |
| Nashville & Davidson County, TN, Metropolitan Government, 5.0%, 1/1/2024 (c) | 5,918,585 | 6,801,494 |
| Trust: Nashville & Davidson County, TN, Metropolitan Government, Series 2631-1, 144A, 18.226%, 1/1/2016, Leverage Factor at purchase date: 4 to 1 | | |
| Total Municipal Inverse Floating Rate Notes (Cost \$15,615,736) | | 17,550,895 |

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| | % of Net Assets | Value (\$) |
|--|--------------------|---------------|
| Total Investment Portfolio (Cost \$202,551,554)† | 152.0 | 225,984,971 |
| MTPS, at Liquidation Value | (40.7) | (60,475,000) |
| Other Assets and Liabilities, Net | (4.9) | (7,336,848) |
| ARPS, at Liquidation Value | (6.4) | (9,525,000) |
| Net Assets Applicable to Common Shareholders | 100.0 | 148,648,123 |

The following represents bonds that are in default:

| Security | Coupon | Maturity Date | Principal Amount (\$) | Cost (\$) | Value (\$) |
|---|--------|---------------|--------------------------|--------------|--------------|
| Florida, Tolomato Community Development District, Special Assessment, Series 1* | 6.55 % | 5/1/2027 | 10,000 | 4,160 | 10,177 |
| Florida, Tolomato Community Development District, Special Assessment, Series 2* | 6.55 % | 5/1/2027 | 400,000 | 141,280 | 239,344 |
| Florida, Tolomato Community Development District, Special Assessment, Series 3* | 6.55 % | 5/1/2027 | 130,000 | 1 145,441 | 1 249,522 |

* Non-income producing security.

† The cost for federal income tax purposes was \$190,657,948. At May 31, 2014, net unrealized appreciation for all securities based on tax cost was \$24,711,984. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$28,462,773 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,750,789.

(a) When-issued security.

(b) Securities represent the underlying municipal obligations of inverse floating rate obligations held by the Fund.

(c) Security forms part of the below tender option bond trust. Principal Amount and Value shown take into account the leverage factor.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

AMBAC: Ambac Financial Group, Inc.

AMT: Subject to alternative minimum tax.

ETM: Bonds bearing the description ETM (escrow to maturity) are collateralized usually by U.S. Treasury securities which are held in escrow and used to pay principal and interest on bonds so designated.

GTY: Guaranty Agreement

INS: Insured

NATL: National Public Finance Guarantee Corp.

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

Prerefunded: Bonds which are prerefunded are collateralized usually by U.S. Treasury securities which are held in escrow and used to pay principal and interest on tax-exempt issues and to retire the bonds in full at the earliest refunding date.

Radian: Radian Asset Assurance, Inc.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of May 31, 2014 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------|---------------|---------|---------------|
| Municipal Investments (d) | \$— | \$225,984,971 | \$— | \$225,984,971 |
| Total | \$— | \$225,984,971 | \$— | \$225,984,971 |

There have been no transfers between fair value measurement levels during the period ended May 31, 2014.

(d) See Investment Portfolio for additional detailed categorizations.

The accompanying notes are an integral part of the financial statements.

Statement of Assets and Liabilities as of May 31, 2014 (Unaudited)

| | |
|--|---------------|
| Assets | |
| Investments: | |
| Investments in securities, at value (cost \$202,551,554) | \$225,984,971 |
| Cash | 564,797 |
| Interest receivable | 3,342,375 |
| Other assets | 3,172 |
| Deferred offering costs | 160,144 |
| Total assets | 230,055,459 |
| Liabilities | |
| Payable for investments purchased — when-issued security | 607,706 |
| Payable for floating rate notes issued | 10,615,039 |
| Distributions payable | 137 |

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| | |
|--|----------------|
| Accrued management fee | 107,244 |
| Accrued Trustees' fees | 1,718 |
| Other accrued expenses and payables | 75,492 |
| MTPS, at liquidation value (see page 31 for more details) | 60,475,000 |
| Total liabilities | 71,882,336 |
| ARPS, at liquidation value (see page 31 for more details) | 9,525,000 |
| Net assets applicable to common shareholders, at value | \$ 148,648,123 |
| Net Assets Applicable to Common Shareholders Consist of | |
| Undistributed net investment income | 1,947,274 |
| Net unrealized appreciation (depreciation) on investments | 23,433,417 |
| Accumulated net realized gain (loss) | (2,810,914) |
| Paid-in capital | 126,078,346 |
| Net assets applicable to common shareholders, at value | \$ 148,648,123 |
| Net Asset Value | |
| Net Asset Value per common share (\$148,648,123 ÷ 11,120,241 outstanding shares of beneficial interest, \$.01 par value, unlimited number of common shares authorized) | \$ 13.37 |

The accompanying notes are an integral part of the financial statements.

Statement of Operations

for the six months ended May 31, 2014 (Unaudited)

Investment Income

Income:

| | |
|----------|-------------|
| Interest | \$6,157,510 |
|----------|-------------|

Expenses:

| | |
|----------------|---------|
| Management fee | 635,920 |
|----------------|---------|

| | |
|--------------------------|-------|
| Services to shareholders | 6,235 |
|--------------------------|-------|

| | |
|---------------|-------|
| Custodian fee | 3,944 |
|---------------|-------|

| | |
|-------------------|--------|
| Professional fees | 66,010 |
|-------------------|--------|

| | |
|-------------------------|--------|
| Reports to shareholders | 26,306 |
|-------------------------|--------|

| | |
|-----------------------------|-------|
| Trustees' fees and expenses | 5,466 |
|-----------------------------|-------|

| | |
|------------------|---------|
| Interest expense | 384,783 |
|------------------|---------|

| | |
|----------------------|--------|
| Auction service fees | 12,081 |
|----------------------|--------|

| | |
|-----------------------------|--------|
| Stock exchange listing fees | 14,852 |
|-----------------------------|--------|

| | |
|----------------|--------|
| Offering costs | 55,544 |
|----------------|--------|

| | |
|-------|--------|
| Other | 41,377 |
|-------|--------|

| | |
|----------------|-----------|
| Total expenses | 1,252,518 |
|----------------|-----------|

| | |
|-----------------------|-----------|
| Net investment income | 4,904,992 |
|-----------------------|-----------|

Realized and Unrealized Gain (Loss)

| | |
|---|--------|
| Net realized gain (loss) from investments | 99,470 |
|---|--------|

| | |
|---|-----------|
| Change in net unrealized appreciation (depreciation) on investments | 9,606,744 |
|---|-----------|

| | |
|-----------------|-----------|
| Net gain (loss) | 9,706,214 |
|-----------------|-----------|

| | |
|---|------------|
| Net increase (decrease) in net assets resulting from operations | 14,611,206 |
|---|------------|

| | |
|-----------------------|----------|
| Distributions to ARPS | (5,129) |
|-----------------------|----------|

| | |
|---|---------------|
| Net increase (decrease) in net assets applicable to common shareholders | \$ 14,606,077 |
|---|---------------|

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

for the six months ended May 31, 2014 (Unaudited)

Increase (Decrease) in Cash:

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Cash Flows from Operating Activities

| | |
|---|---------------|
| Net increase (decrease) in net assets resulting from operations (excluding distributions to ARPS) | \$ 14,611,206 |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided (used) by operating activities: | |
| Purchases of long-term investments | (18,529,777) |
| Net amortization of premium/(accretion of discount) | (74,052) |
| Proceeds from sales and maturities of long-term investments | 18,734,071 |
| (Increase) decrease in interest receivable | (122,934) |
| (Increase) decrease in other assets | 3,600 |
| Increase (decrease) in payable for investments purchased — when-issued security | 607,706 |
| Increase (decrease) in other accrued expenses and payables | (46,431) |
| Change in net unrealized (appreciation) depreciation on investments | (9,606,744) |
| Net realized (gain) loss from investments | (99,470) |
| Cash provided (used) by operating activities | 5,477,175 |
| Cash Flows from Financing Activities | |
| (Increase) decrease in deferred offering cost on MTPS | 55,544 |
| Distributions paid (net of reinvestment of distributions) | (5,019,075) |
| Cash provided (used) by financing activities | (4,963,531) |
| Increase (decrease) in cash | 513,644 |
| Cash at beginning of period | 51,153 |
| Cash at end of period | \$ 564,797 |
| Supplemental Disclosure | |
| Reinvestment of distributions | \$ 175,008 |
| Interest expense | \$(384,783) |

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

| | Six Months Ended May 31, 2014 (Unaudited) | Year Ended November 30, 2013 |
|---|--|------------------------------------|
| Increase (Decrease) in Net Assets | | |
| Operations: | | |
| Net investment income | \$ 4,904,992 | \$ 9,622,035 |
| Operations: | | |
| Net investment income | \$ 4,904,992 | \$ 9,622,035 |
| Net realized gain (loss) | 99,470 | (2,871,941) |
| Change in net unrealized appreciation (depreciation) | 9,606,744 | (18,021,459) |
| Net increase (decrease) in net assets resulting from operations | 14,611,206 | (11,271,365) |
| Distributions to ARPS | (5,129) | (15,864) |
| Net increase (decrease) in net assets applicable to common shareholders | 14,606,077 | (11,287,229) |
| Distributions to common shareholders from: | | |
| Net investment income | (5,133,455) | (10,257,939) |
| Net realized gains | (55,534) | — |
| Total distributions | (5,188,989) | (10,257,939) |
| Fund share transactions: | | |
| Net proceeds from shares issued to common shareholders from reinvestment of distributions | 175,008 | 250,487 |
| Net increase (decrease) in net assets from Fund share transactions | 175,008 | 250,487 |
| Increase (decrease) in net assets | 9,592,096 | (21,294,681) |
| Net assets at beginning of period applicable to common shareholders | 139,056,027 | 160,350,708 |

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| | | |
|--|----------------|----------------|
| Net assets at end of period applicable to common shareholders (including undistributed net investment income of \$1,947,274 and \$2,180,866, respectively) | \$ 148,648,123 | \$ 139,056,027 |
| Other Information | | |
| Common shares outstanding at beginning of period | 11,106,707 | 11,089,387 |
| Shares issued to common shareholders from reinvestment of distributions | 13,534 | 17,320 |
| Common shares outstanding at end of period | 11,120,241 | 11,106,707 |

The accompanying notes are an integral part of the financial statements.

Financial Highlights

| | Years Ended November 30, | | | | | |
|--|---|-----------|----------|----------|----------|----------|
| | Six Months Ended 5/31/14 (Unaudited) | 2013 | 2012 | 2011 | 2010 | 2009 |
| Selected Per Share Data Applicable to Common Shareholders | | | | | | |
| Net asset value, beginning of period | \$ 12.52 | \$ 14.46 | \$ 12.49 | \$ 12.40 | \$ 12.01 | \$ 9.66 |
| Income (loss) from investment operations: | | | | | | |
| Net investment income ^a | .44 | .87 | .95 | 1.01 | 1.00 | 1.01 |
| Net realized and unrealized gain (loss) | .88 | (1.89) | 1.75 | .08 | .35 | 2.25 |
| Total from investment operations | 1.32 | (1.02) | 2.70 | 1.09 | 1.35 | 3.26 |
| Distributions to ARPS from net investment income (common share equivalent) | (.00)*** | (.00)*** | (.02) | (.02) | (.03) | (.05) |
| Net increase (decrease) in net assets resulting from operations | 1.32 | (1.02) | 2.68 | 1.07 | 1.32 | 3.21 |
| Less distributions to common shareholders from: | | | | | | |
| Net investment income | (.46) | (.92) | (.93) | (.92) | (.93) | (.86) |
| Net realized gains | (.01) | — | — | (.06) | — | — |
| Total distributions | (.47) | (.92) | (.93) | (.98) | (.93) | (.86) |
| NAV accretion resulting from ARPS tendered at a discount ^a | — | — | .22 | — | — | — |
| Net asset value, end of period | \$ 13.37 | \$ 12.52 | \$ 14.46 | \$ 12.49 | \$ 12.40 | \$ 12.01 |
| Market price, end of period | \$ 13.54 | \$ 12.21 | \$ 15.49 | \$ 13.33 | \$ 12.78 | \$ 12.33 |
| Total Return | | | | | | |
| Based on net asset value (%) ^b | 10.73 ** | (7.31) | 23.77 | 9.32 | 11.18 | 35.09 |
| Based on market price (%) ^b | 14.99 ** | (15.62) | 24.23 | 13.20 | 11.61 | 71.76 |
| Ratios to Average Net Assets Applicable to Common Shareholders and Supplemental Data | | | | | | |
| Net assets, end of period (\$ millions) | 149 | 139 | 160 | 138 | 136 | 132 |
| Ratio of expenses (%) (including interest) | 1.76 * | 1.69 | 1.30 | 1.29 | 1.32 | 1.48 |

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expense)c,d

Ratio of expenses (%)

(excluding interest expense)e 1.22 * 1.16 1.23 1.23 1.26 1.39

Ratio of net investment

income (%)f 6.90 * 6.43 7.06 8.40 8.00 9.35

Portfolio turnover rate (%) 8 ** 34 41 26 26 79

Financial Highlights (continued)

Years Ended November 30,

| | Six Months Ended 5/31/14 (Unaudited) | 2013 | 2012 | 2011 | 2010 | 2009 |
|-----------------------|--|--------|--------|--------|--------|--------|
| Senior Securities | | | | | | |
| Preferred shares | | | | | | |
| information at end of | | | | | | |
| period, aggregate | | | | | | |
| amount outstanding: | | | | | | |
| ARPS (\$ millions) | 10 | 10 | 10 | 70 | 70 | 70 |
| MTPS (\$ millions) | 60 | 60 | 60 | — | — | — |
| Asset coverage per | | | | | | |
| share (\$)g | 78,089 | 74,663 | 82,268 | 74,303 | 73,726 | 72,033 |
| Liquidation and | | | | | | |
| market price per | | | | | | |
| share (\$) | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |

a Based on average common shares outstanding during the period.

b Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market price reflects changes in market price. Each figure assumes that dividend and capital gain distributions, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period.

c Interest expense represents interest and fees on short-term floating rate notes issued in conjunction with inverse floating rate securities and interest paid to shareholders of MTPS.

d The ratio of expenses (based on net assets of common and Preferred Shares, including interest expense) were 1.18%, 1.15%, 0.89%, 0.85%, 0.88% and 0.93% for the periods ended May 31, 2014, November 30, 2013, 2012, 2011, 2010 and 2009, respectively.

e The ratio of expenses (based on net assets of common and Preferred Shares, excluding interest expense) were 0.82%, 0.79%, 0.85%, 0.81%, 0.84% and 0.88% for the periods ended May 31, 2014, November 30, 2013, 2012, 2011, 2010 and 2009, respectively.

f The ratio of net investment income after distributions paid to ARPS were 6.89%, 6.42%, 6.94%, 8.23%, 7.80% and 8.92% for the periods ended for the periods ended May 31, 2014, November 30, 2013, 2012, 2011, 2010 and 2009, respectively.

g Asset coverage per share equals net assets of common shares plus the liquidation value of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.

* Annualized

** Not annualized

*** Amount is less than \$.005.

Notes to Financial Statements (Unaudited)

A. Organization and Significant Accounting Policies

DWS Strategic Municipal Income Trust (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end, diversified management investment company organized as a Massachusetts business trust.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Municipal debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board, whose valuations are intended to reflect the mean between the bid and asked prices. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. If the pricing services are unable to provide valuations, the securities are valued at the mean of the most recent bid and asked quotations or evaluated prices, as applicable, obtained from one or more broker-dealers. These securities are generally categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors considered in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold; and with respect to debt securities, the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

When Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Inverse Floaters. The Fund invests in inverse floaters. Inverse floaters are debt instruments with a weekly floating rate of interest that bears an inverse relationship to changes in the short-term interest rate market. Inverse floaters are created by depositing a fixed-rate municipal bond into a special purpose trust (the "Trust"). In turn the Trust issues a short-term floating rate note and an inverse floater. The income stream from the underlying bond in the Trust is divided between the floating rate note and the inverse floater. The income provided by the inverse floater bears an inverse relationship with the short-term rate paid to the floating rate note holder. The short-term floating rate note is issued in a face amount equal to some fraction of the underlying bond's par amount and is paid to a third party, usually a tax-exempt money market fund, at rates that generally reset weekly. The inverse floater earns all of the interest from the underlying fixed-rate bond less the amount of interest paid on the floating rate note and the expenses of the Trust. The inverse floater represents an investment in the underlying bond on a leveraged basis; the Fund bears all of the price risk of the underlying bond in the Trust and receives all the benefits from any potential appreciation of the underlying bond's value. The floating rate notes issued by the Trust are valued at cost, which approximates fair value.

By holding the inverse floater, the Fund has the right to collapse the Trust by causing the holders of the floating rate instrument to tender their notes at par and have the broker transfer the underlying bond to the Fund. The floating rate note holder can also elect to tender the note for redemption at par at each reset date. The Fund accounts for these transactions as a form of secured borrowing, by reflecting the value of the underlying bond in the investments of the Fund and the amount owed to the floating rate note holder as a liability under the caption "Payable for floating rate notes issued" in the Statement of Assets and Liabilities. Income earned on the underlying bond is included in interest income, and interest paid on the floaters and the expenses of the Trust are included in "Interest expense" in the Statement of Operations. For the six months ended May 31, 2014, interest expense related to floaters amounted to \$34,564.

The Fund may enter into shortfall and forbearance agreements by which the Fund agrees to reimburse the Trust, in certain circumstances, for the difference between the liquidation value of the underlying bond held by the Trust and the liquidation value of the floating rate notes plus any shortfalls in interest cash flows. This could potentially expose the Fund to losses in excess of the value of the Fund's inverse floater investments. In addition, the value of inverse floaters may decrease significantly when interest rates increase. The market for inverse floaters may be more volatile and less liquid than other municipal bonds of comparable maturity. The Trust could be terminated outside of the Fund's control, resulting in a reduction of leverage and disposal of portfolio investments at inopportune times and prices. Investments in inverse floaters generally involve greater risk than in an investment in fixed-rate bonds.

The weighted average outstanding daily balance of the floating rate notes during the six months ended May 31, 2014 was approximately \$10,615,000, with a weighted average interest rate of 0.65%.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable and tax-exempt income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At November 30, 2013, the Fund had a net tax basis capital loss carryforward of approximately \$4,049,000, including \$367,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each

succeeding year until fully utilized or November 30, 2019, the expiration date, whichever occurs first; and \$3,682,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses (\$608,000) and long-term losses (\$3,074,000).

The Fund has reviewed the tax positions for the open tax years as of November 30, 2013 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions from net investment income of the Fund are declared and distributed to shareholders monthly. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually. The Fund may also make additional distributions for tax purposes if necessary.

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to certain securities sold at a loss and accretion of market discount on debt securities. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

The tax character of current year distributions will be determined at the end of the current fiscal year.

Preferred Shares. At May 31, 2014, the Fund had issued and outstanding 2,419 floating rate municipal term preferred shares ("MTPS") and 381 Series T municipal auction rate cumulative preferred shares ("ARPS"), each with a liquidation preference of \$25,000 per share. With respect to the payment of dividends and the distribution of assets upon the dissolution, liquidation or winding up of the affairs of the Fund, the MTPS and the ARPS rank on parity with each other, and are both senior in priority to the Fund's outstanding common shares.

The MTPS are a floating rate form of preferred shares with a term redemption date of December 1, 2015, unless extended, as a general matter, by the holders of the MTPS, and dividends that are set weekly to a fixed spread (dependent on the then current credit rating of the MTPS) against the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index. The average annualized dividend rate on the MTPS for the six months ended May 31, 2014 was 1.15%. In the Fund's Statement of Assets and Liabilities, the MTPS' aggregate liquidation preference is shown as a liability since the MTPS have a stated mandatory redemption date. Dividends paid on the MTPS are treated as interest expense and recorded as incurred. For the six months ended May 31, 2014, interest expense related to MTPS amounted to \$350,219.

ARPS are preferred shares whose dividend rate is set through a "Dutch" auction process, and the dividends are generally paid every seven days. An auction fails if there are more ARPS offered for sale than there are buyers. Since February 2008, auctions for the ARPS have failed. Under the terms of the ARPS designation statement, in the event of a failed auction, the ARPS' dividend rate adjusts to a "maximum rate." Based on current ARPS ratings, the maximum rate is 110% times the higher of the "Taxable Equivalent of the Short-Term Municipal Bond Rate" (defined as the approximate taxable yield equivalent of the yield on short-term municipal securities derived by reference to a specified index) and the applicable AA Composite Commercial Paper Rate. For the period ended May 31, 2014, the Taxable Equivalent of the Short-Term Municipal Bond Rate was calculated by reference to the S&P Municipal Bond 7 Day High Grade Rate Index (the successor index to the S&P Weekly High Grade Index, which, prior to January 8, 2013, was used for purposes of calculating the Taxable Equivalent of the Short-Term Municipal Bond Rate). ARPS shareholders may offer their shares for sale at the next scheduled auction, subject to the same risk that the subsequent auction will not attract sufficient demand for a successful auction to occur. Broker-dealers may also try to facilitate secondary trading in the ARPS, although such secondary trading may be limited and may only be available for

shareholders willing to sell at a discount. While prolonged auction failures have affected the liquidity for the ARPS, a failed auction does not represent a default on or loss of capital of, the Fund's ARPS and the ARPS shareholders have continued to receive dividends at the previously defined "maximum rate." During the six months ended May 31, 2014, the ARPS dividend rates ranged from 0.066% to 0.230%. Prolonged auction failures may increase the cost of leverage to the Fund.

Under the terms of a Purchase Agreement between the Fund and the initial purchaser of the MTPS, the Fund is subject to various investment restrictions that are, in certain respects, more restrictive than those to which the Fund is otherwise subject in accordance with its investment objective and policies. Such restrictions may limit the investment flexibility that might otherwise be pursued by the Fund if the MTPS were not outstanding. In addition, the Fund is subject to certain restrictions on its investments imposed by guidelines of the rating agencies that rate the ARPS and the MTPS, which guidelines may be changed by the applicable rating agency, in its sole discretion, from time to time. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. Moreover, the Fund is required to maintain various asset coverage ratios with respect to the ARPS and the MTPS as defined in the Fund's charter documents and the 1940 Act. The Fund is not permitted to declare common share dividends unless the ARPS and the MTPS have a minimum asset coverage ratio of 200% at the time of declaration of the common share dividends after deducting the amount of such dividend.

The 1940 Act requires that the preferred shareholders of the Fund, voting as a separate class, have the right to: a) elect at least two trustees at all times, and b) elect a majority of the trustees at any time when dividends on the preferred shares are unpaid for two full years. Unless otherwise required by law or under the terms of the preferred shares, each preferred share is entitled to one vote and preferred shareholders will vote together with common shareholders as a single class.

Leverage involves risks and special considerations for the Fund's common shareholders, including the likelihood of greater volatility of net asset value and market price of, and dividends on, the Fund's common shares than a comparable portfolio without leverage; the risk that fluctuations in interest rates will reduce the return to common shareholders; and the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Fund's common shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Fund's common shares. Changes in the value of the Fund's portfolio will be borne entirely by the common shareholders. If there is a net decrease (or increase) in the value of the Fund's investment portfolio, leverage will decrease (or increase) the net asset value per share to a greater extent than if leverage were not used. It is also possible that the Fund will be required to sell assets at a time when it would otherwise not do so, possibly at a loss, in order to redeem preferred shares to comply with asset coverage or other restrictions imposed by the rating agencies that rate the preferred shares. There is no assurance that the Fund's leveraging strategy will be successful.

Statement of Cash Flows. Information on financial transactions which have been settled through the receipt and disbursement of cash is presented in the Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows represents the cash position at the Fund's custodian bank at May 31, 2014.

Contingencies. In the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet been made. However, based on experience, the Fund expects the risk of loss to be remote.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All premiums and discounts are amortized/accreted for financial reporting purposes, with the exception of securities in default of principal.

B. Purchases and Sales of Securities

During the six months ended May 31, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated \$18,529,777 and \$18,734,071, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Investment Management Agreement. The management fee payable under the Investment Management Agreement is equal to an annual rate of 0.60% of the Fund's average weekly net assets, computed and accrued daily and payable monthly. Average weekly net assets, for purposes of determining the management fee, means the average weekly value of the total assets of the Fund, minus the sum of accrued liabilities of the Fund (other than the liquidation value of the ARPS and MTPS).

Service Provider Fees. DWS Investments Service Company ("DISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended May 31, 2014, the amount charged to the Fund by DISC aggregated \$3,201, of which \$1,641 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the six months ended May 31, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated \$6,864, all of which is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Other Related Parties. Deutsche Bank Trust Company Americas, an affiliate of the Advisor, is the auction agent with respect to the ARPS. The auction agent pays each broker-dealer a service charge from funds provided by the Fund ("Auction Service Fee"). The Auction Service Fee charged to the Fund for the six months ended May 31, 2014 aggregated \$12,081, of which \$264 is unpaid.

In addition, Deutsche Bank Trust Company Americas charges an administration fee for the ARPS and the MTPS. For the six months ended May 31, 2014, the amount charged to the Fund by Deutsche Bank Trust Company Americas included in the Statement of Operations under "other" aggregated \$5,485, all of which is unpaid.

D. Share Repurchases

The Board has authorized the Fund to effect periodic repurchases of its outstanding shares in the open market from time to time when the Fund's shares trade at a discount to their net asset value. During the six months ended May 31, 2014 and the year ended November 30, 2013, the Fund did not repurchase shares in the open market.

E. Fund Name Change

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Effective August 11, 2014, the "DWS Funds" will be rebranded "Deutsche Funds." As a result, DWS Strategic Municipal Income Trust will be renamed Deutsche Strategic Municipal Income Trust.

Other Information

On December 23, 2013, Standard & Poor's Ratings Services ("S&P") announced that it had placed the ratings of the Fund's MTPS and ARPS on CreditWatch negative. The ratings of the Fund's MTPS and ARPS, along with the ratings of the preferred shares issued by many other municipal and equity closed-end funds, were placed on CreditWatch negative following the completion of S&P's initial reviews of its ratings of all market value securities, which include preferred shares issued by closed-end funds, based on S&P's updated criteria for rating such securities which was published on September 17, 2013.

On March 6, 2014, Fitch Ratings ("Fitch") assigned a rating of AAA to the Fund's MTPS. Concurrent with the new Fitch rating, the Fund requested S&P to withdraw its ratings of the Fund's MTPS and ARPS. On March 27, 2014, S&P withdrew its ratings of the Fund's MTPS and ARPS. Immediately prior to such withdrawals, S&P lowered its ratings of the Fund's MTPS and ARPS from AAA/CreditWatch Negative to AA. Moody's Investors Service ("Moody's") continues to rate the Fund's MTPS and ARPS, and its Aa2 rating of each remains unchanged.

Dividend Reinvestment Plan

The Board of Trustees of the Fund has approved changes to the Dividend Reinvestment and Cash Purchase Plan that are expected to take effect in the fourth quarter of 2014. Please see page [39](#) for a summary of the changes to the Plan. Current Participants in the Plan will receive written notice of the changes to the Plan prior to the effective date. Shareholders should contact DWS Investment Services Company at (800) 294-4366 for additional information about the Plan.

A summary of the Fund's Dividend Reinvestment Plan (the "Plan") is set forth below. Shareholders may obtain a copy of the entire Plan by writing or calling DWS Investment Service Company ("DISC") at:

P.O. Box 219066

Kansas City, Missouri 64121-9066

(800) 294-4366

If you wish to participate in the Plan and your shares are held in your own name, simply contact DISC for the appropriate form. If your shares are held in the name of a broker or other nominee, you should contact the broker or nominee in whose name your shares are held to determine whether and how you may participate in the Plan. The Fund's transfer agent and dividend disbursing agent (the "Transfer Agent") will establish a Dividend Investment Account (the "Account") for each shareholder participating in the Plan. The Transfer Agent will credit to the Account of each participant any cash dividends and capital gains distributions (collectively, "Distributions") paid on shares of the Fund (the "Shares"). Shares in a participant's Account are transferable upon proper written instructions to the Transfer Agent. Upon request to the Transfer Agent, a certificate for any or all full Shares in a participant's Account will be sent to the participant.

If, on the record date for a Distribution (the "Record Date"), Shares are trading at a discount from net asset value per Share, funds credited to a participant's Account will be used to purchase Shares (the "Purchase"). The Plan Agent (currently Computershare Inc.) will attempt, commencing five days prior to the Payment Date and ending at the close of business on the Payment Date ("Payment Date" as used herein shall mean the last business day of the month in which such Record Date occurs), to acquire Shares in the open market. If and to the extent that the Plan Agent is unable to acquire sufficient Shares to satisfy the Distribution by the close of business on the Payment Date, the Fund

will issue to the Plan Agent, Shares valued at net asset value per Share in the aggregate amount of the remaining value of the Distribution. If, on the Record Date, Shares are trading at a premium over net asset value per Share, the Fund will issue on the Payment Date Shares valued at net asset value per Share on the Record Date to the Transfer Agent in the aggregate amount of the funds credited to the participants' Accounts. The Fund will increase the price at which Shares may be issued under the Plan to 95% of the fair market value of the shares on the Record Date if the net asset value per Share of the Shares on the Record Date is less than 95% of the fair market value of the Shares on the Record Date.

Although the Fund seeks income that is exempt from federal income tax, a portion of the Distributions may be subject to federal, state and local taxes, including the alternative minimum tax. The reinvestment of Distributions does not relieve the participant of any tax that may be payable on the Distributions. The Transfer Agent will report to each participant the taxable amount of Distributions credited to his or her account. Participants will be treated for federal income tax purposes as receiving the amount of the Distributions made by the Fund, which amount generally will be either equal to the amount of the cash distribution the shareholder would have received if the shareholder had elected to receive cash or, for shares issued by the Fund, the fair market value of the shares issued to the shareholder.

The cost of Shares acquired for each participant's Account in connection with a Purchase shall be determined by the average cost per Share, including brokerage commissions, of the Shares acquired in connection with that Purchase. There will be no brokerage charges with respect to Shares issued directly by the Fund as a result of Distributions. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to open market purchases. Brokerage charges for purchasing small amounts of Shares for individual Accounts through the Plan will probably be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing Shares for all participants in blocks and prorating the lower commission thus attainable.

A participant may from time to time make voluntary cash contributions to his Account in a minimum amount of \$100 (no more than \$500 may be contributed per month). Participants making voluntary cash investments will be charged a \$0.75 service fee for each such investment and will be responsible for their pro rata share of brokerage commissions. Please contact DISC for more information on voluntary cash contributions.

The Fund reserves the right to amend the Plan, including provisions with respect to any Distribution paid, subsequent to notice thereof sent to participants in the Plan at least ninety days before the effective date for such an amendment, except when such amendment is necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, in which case such amendment shall be effective as soon as practicable. The Plan may be terminated by the Fund.

Shareholders may withdraw from the Plan at any time by giving the Transfer Agent a written notice. A notice of withdrawal will be effective for the next Distribution following receipt of the notice by the Transfer Agent provided the notice is received by the Transfer Agent at least ten days prior to the Record Date for the Distribution. When a participant withdraws from the Plan, or when the Plan is terminated by the Fund, the participant will receive a certificate for full Shares in the Account, plus a check for any fractional Shares based on market price; or, if a participant so desires, the Transfer Agent will notify the Plan Agent to sell his Shares in the Plan and send the proceeds to the participant, less brokerage commissions and a \$2.50 service fee.

Shareholders will receive tax information annually for personal records and to assist in preparation of their federal income tax returns.

Summary of Changes to the Dividend Reinvestment and Cash Purchase Plan

On the effective date (currently expected to be in the fourth quarter of 2014), the Plan will change as follows:

— DST Systems, Inc. will replace Computershare Inc. as the Plan Agent.

— Current shareholders already participating in the Plan will automatically stay in the Plan. Current shareholders not participating in the Plan may join the Plan by either enrolling their shares with the Transfer Agent or making an initial cash deposit of at least \$250 with the Transfer Agent. First-time investors in the Fund may join the Plan by making an initial cash deposit of at least \$250 with the Transfer Agent.

— For purposes of determining whether the Fund's Shares are trading at a discount or premium to net asset value per Share, such determinations will be made as of the payment date for the Distribution rather than the Record Date. Purchases in the open market will be made on or shortly after the payment date.

— Each participant may make voluntary cash contributions to his Account in the amount of at least \$100 in any month (with a \$36,000 annual limit) for the purchase on the open market of Shares for the participant's Account. Such voluntary payments will be invested by the Plan Agent on or shortly after the 15th of each month. Optional cash payments received from a participant on or prior to the fifth day preceding the 15th of each month will be applied by the Plan Agent to the purchase of additional Shares as of that investment date.

— Participants will no longer be charged a \$0.75 service fee for each voluntary cash investment.

— A notice of withdrawal from the Plan will be effective immediately following receipt of the notice by the Transfer Agent provided the notice is received by the Transfer Agent at least ten calendar days prior to the Record Date for the Distribution; otherwise such withdrawal will be effective after the investment of the current dividend or distribution.

— Participants will no longer be charged a service fee of \$2.50, for sales of the participant's Shares in connection with a termination or withdrawal.

Additional Information

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|--|---|
| Automated Information Line | DWS Investments Closed-End Fund Info Line (800) 349-4281 |
| Web Site | dws-investments.com Obtain fact sheets, financial reports, press releases and webcasts when available. |
| Written Correspondence | Deutsche Asset & Wealth Management Attn: Secretary of the DWS Funds One Beacon Street Boston, MA 02108 |
| Legal Counsel | Vedder Price P.C. 222 North LaSalle Street Chicago, IL 60601 |
| Dividend Reinvestment Plan Agent | Computershare Inc. P.O. Box 43078 Providence, RI 02940-3078 |
| Shareholder Service Agent and Transfer Agent | DWS Investments Service Company P.O. Box 219066 Kansas City, MO 64121-9066 (800) 294-4366 |
| Custodian | State Street Bank and Trust Company State Street Financial Center One Lincoln Street Boston, MA 02111 |

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Independent Ernst & Young LLP
 Registered 200 Clarendon Street
 Public Boston, MA 02116
 Accounting Firm

Proxy Voting The fund's policies and procedures for voting proxies for portfolio securities and information about how the fund voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — dws-investments.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — sec.gov. To obtain a written copy of the fund's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

Portfolio Holdings Following the fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. This form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The fund's portfolio holdings as of the month-end are posted on dws-investments.com on or after the last day of the following month. More frequent posting of portfolio holdings information may be made from time to time on dws-investments.com.

Investment Management Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), which is part of Deutsche Asset & Wealth Management, is the investment advisor for the fund. DIMA and its predecessors have more than 80 years of experience managing mutual funds and DIMA provides a full range of investment advisory services to both institutional and retail clients. DIMA is an indirect, wholly owned subsidiary of Deutsche Bank AG. Deutsche Bank AG is a major global banking institution engaged in a wide variety of financial services, including investment management, retail, private and commercial banking, investment banking and insurance. Deutsche Asset & Wealth Management is the retail brand name in the U.S. for the wealth management and asset management activities of Deutsche Bank AG and DIMA. Deutsche Asset & Wealth Management is committed to delivering the investing expertise, insight and resources of this global investment platform to American investors.

NYSE Symbol KSM
 CUSIP Number Common Shares 23338T 101

Privacy Statement

FACTS What Does Deutsche Asset & Wealth Management Do With Your Personal Information?

Why? Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.

What? The types of personal information we collect and share can include:

- Social Security number
- Account balances
- Purchase and transaction history

- Bank account information
- Contact information such as mailing address, e-mail address and telephone number

How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information, the reasons Deutsche Asset & Wealth Management chooses to share and whether you can limit this sharing.

| Reasons we can share your personal information | Does Deutsche Asset & Wealth Management share? | Can you limit this sharing? |
|--|--|-----------------------------|
| For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders or legal investigations | Yes | No |
| For our marketing purposes — to offer our products and services to you | Yes | No |
| For joint marketing with other financial companies | No | We do not share |
| For our affiliates' everyday business purposes — information about your transactions and experiences | No | We do not share |
| For our affiliates' everyday business purposes — information about your creditworthiness | No | We do not share |
| For non-affiliates to market to you | No | We do not share |
| Questions? | Call (800) 728-3337 or e-mail us at service@dws.com | |

Who we are
Who is providing this notice?

DWS Investments Distributors, Inc.; Deutsche Investment Management Americas Inc.; DeAM Investor Services, Inc.; DWS Trust Company; the DWS Funds

What we do
How does Deutsche Asset & Wealth Management protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

How does Deutsche Asset & Wealth Management collect my personal information?

We collect your personal information, for example. When you:

- open an account
- give us your contact information
- provide bank account information for ACH or wire transactions
- tell us where to send money
- seek advice about your investments

Why can't I limit all sharing?

Federal law gives you the right to limit only

- sharing for affiliates' everyday business purposes — information about your creditworthiness
- affiliates from using your information to market to you

— sharing for non-affiliates to market to you
State laws and individual companies may give you additional rights to limit sharing.

Definitions

Affiliates

Companies related by common ownership or control. They can be financial or non-financial companies. Our affiliates include financial companies with the DWS or Deutsche Bank ("DB") name, such as DB AG Frankfurt and DB Alex Brown.

Non-affiliates

Companies not related by common ownership or control. They can be financial and non-financial companies.

Non-affiliates we share with include account service providers, service quality monitoring services, mailing service providers and verification services to help in the fight against money laundering and fraud.

Joint marketing

A formal agreement between non-affiliated financial companies that together market financial products or services to you. Deutsche Asset & Wealth Management does not jointly market.

Rev. 09/2013

Notes

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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

Not applicable

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

Not applicable

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not applicable

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

| | (a) | (b) | (c) | (d) |
|--------------------------------|-------------------------------------|---------------------------------|--|---|
| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
| December 1 through December 31 | - | n/a | n/a | n/a |
| January 1 through January 31 | - | n/a | n/a | n/a |
| February 1 through February 28 | - | n/a | n/a | n/a |
| March 1 through March 31 | - | n/a | n/a | n/a |
| April 1 through April 30 | - | n/a | n/a | n/a |
| May 1 through May 31 | - | n/a | n/a | n/a |
| Total | - | n/a | n/a | n/a |

The Fund may from time to time repurchase shares in the open market.

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

There were no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board. The primary function of the Nominating and Governance Committee is to identify and recommend individuals for membership on the Board and oversee the administration of the Board Governance Guidelines. Shareholders may recommend candidates for Board positions by forwarding their correspondence by U.S. mail or courier service to Kenneth C. Froewiss, Independent Chairman, DWS Mutual Funds, P.O. Box 390601, Cambridge, MA 02139.

ITEM 11. CONTROLS AND PROCEDURES

(a) The Chief Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on the evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

- (b) There have been no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting.

ITEM 12. EXHIBITS

- (a)(1) Not applicable
- (a)(2) Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.
- (b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) is furnished and attached hereto as 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, thereunto duly authorized.

Registrant: DWS Strategic Municipal Income Trust

By: /s/Brian E. Binder
Brian E. Binder
President

Date: July 30, 2014

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/Brian E. Binder
Brian E. Binder
President

Date: July 30, 2014

By: /s/Paul Schubert
Paul Schubert
Chief Financial Officer and Treasurer

Date: July 30, 2014