

DWS MUNICIPAL INCOME TRUST
Form N-CSR
February 01, 2011

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

FORM N-CSR

Investment Company Act file number 811-05655

DWS 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: (201) 593-6408

Paul Schubert
100 Plaza One
Jersey City, NJ 07311
(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/2010

ITEM 1. REPORT TO STOCKHOLDERS

NOVEMBER 30, 2010
Annual Report
to Shareholders

DWS Municipal Income Trust
Ticker Symbol: KTF

Contents

4 Performance Summary
6 Portfolio Management Review
10 Portfolio Summary
12 Investment Portfolio
23 Statement of Assets and Liabilities
24 Statement of Operations
25 Statement of Cash Flows
26 Statement of Changes in Net Assets
27 Financial Highlights
29 Notes to Financial Statements

36 Report of Independent Registered Public Accounting Firm

37 Tax Information

37 Other Information

38 Dividend Reinvestment Plan

40 Investment Management Agreement Approval

45 Board Members and Officers

50 Additional Information

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 losses. Although the fund seeks income that is federally tax-free, a portion of the fund's distributions may be subject to federal, state and local taxes, including the alternative minimum tax.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

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

Performance Summary November 30, 2010

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 www.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.

Returns and rankings based on net asset value during the 3-year, 5-year and 10-year periods shown reflect fee reductions. Without these fee reductions, returns and rankings would have been lower.

Average Annual Total Returns as of 11/30/10

DWS Municipal Income Trust	1-Year	3-Year	5-Year	10-Year
Based on Net Asset Value(a)	7.94%	7.78%	6.23%	7.27%
Based on Market Price(a)	14.30%	12.56%	5.94%	8.40%
Barclays Capital Municipal Bond Index(b)	4.76%	4.86%	4.67%	5.30%
Lipper General Closed-End Municipal Debt Funds (Leveraged) Category(c)	8.76%	3.55%	3.81%	5.80%

Sources: Lipper Inc. and Deutsche Investment Management Americas Inc.

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(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.

(b) The Barclays Capital Municipal Bond Index is an unmanaged, unleveraged, market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years. Index returns, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

(c) The Lipper General Closed-End Municipal Debt Funds (Leveraged) category includes closed-end funds that invest in general municipal debt issues in the top-four credit grades. Lipper figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Lipper Inc. as falling into the General Closed-End Municipal Debt Funds (Leveraged) category. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

Net Asset Value and Market Price

	As of 11/30/10	As of 11/30/09
Net Asset Value	\$12.03	\$11.94
Market Price	\$12.12	\$11.36

Prices and net asset value fluctuate and are not guaranteed.

Distribution Information

Twelve Months as of 11/30/10:

Income Dividends (common shareholders)	\$.84	
November Income Dividend (common shareholders)	\$.07	
Current Annualized Distribution Rate (based on Net Asset Value) as of 11/30/10+	6.98	%
Current Annualized Distribution Rate (based on Market Price) as of 11/30/10+	6.93	%
Tax Equivalent Distribution Rate (based on Net Asset Value) as of 11/30/10+	10.74	%
Tax Equivalent Distribution Rate (based on Market Price) as of 11/30/10+	10.66	%

+ Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on November 30, 2010. 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 35%. Distribution rates are historical, not guaranteed and will fluctuate.

Lipper Rankings — General Closed-End Municipal Debt Funds (Leveraged) Category as of 11/30/10

Period	Rank		Number of Funds Percentile Ranking	
			Tracked	(%)
1-Year	39	of	63	61
3-Year	1	of	60	2
5-Year	2	of	59	4
10-Year	5	of	42	12

Source: Lipper Inc. Rankings are historical and do not guarantee future results. Rankings are based on net asset value total return with distributions reinvested.

Portfolio Management Review

DWS Municipal Income Trust: A Team Approach to Investing

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Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), which is part of Deutsche Asset Management, is the investment advisor for DWS Municipal Income Trust. DIMA and its predecessors have more than 90 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.

DWS Investments is the retail brand name of the US asset management activities of Deutsche Bank AG and DIMA. As such, DWS is committed to delivering the investing expertise, insight and resources of this global investment platform to American investors.

Portfolio Management Team

Philip G. Condon

Michael J. Generazo

Co-Lead Portfolio Managers

Overview of Market and Fund Performance

The views expressed in the following discussion reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

DWS Municipal Income Trust's investment objective is to provide a high level of current income exempt from federal income tax. The fund may utilize leverage in the form of preferred shares or bank borrowings under a revolving credit facility. See the Notes to Financial Statements for further information.

The fund delivered a total return at net asset value of 7.94% for the annual period. The fund posted a return based on market price of 14.30%. Its average peer in the Lipper General Closed-End Municipal Debt Funds (Leveraged) category for closed-end funds delivered 8.76% in the period.¹ The fund's benchmark, the unmanaged Barclays Capital Municipal Bond Index, returned 4.76% for the 12 months.² Municipals overall underperformed the broad taxable bond market, as measured by the Barclays Capital US Aggregate Bond Index, which returned 6.02% for the same period.³ Over the period, the fund's traded shares went from a discount of 4.9% to a slight premium of 0.7%. The fund maintained its monthly dividend of 7 cents per share through the fiscal period.

Credit markets generally trended positive over the fiscal period, in part driven by investors shunning extraordinarily low yields available on Treasuries. The municipal market was helped over the period by the implementation of the American Recovery and Reinvestment Act, which provided many state and local governments with direct budgetary relief. Nonetheless, negative news concerning budget struggles continued to surround the municipal market, with California, New York and Illinois providing many of the headlines. Despite this backdrop, municipal credit spreads generally narrowed over the fiscal period.⁴ To illustrate, the incremental yield versus AAA issues on 30-year BBB-rated hospital bonds narrowed from approximately 230 basis points to 190 basis points over the 12 months.⁵ Spreads on issues rated A also narrowed somewhat versus AAA issues, especially in the 10-year-and-under maturity range.

Overall municipal supply was roughly similar to the prior fiscal period. However, a significant portion of issuance continued to comprise taxable Build America Bonds enabled by the American Recovery and Reinvestment Act. Demand for municipals from individual retail and mutual fund investors generally remained strong. Late in the period, demand dipped as the market became unsettled by a variety of factors, including speculation over the impact of continued US Federal Reserve Board (the Fed) monetary easing and the implications of the November elections for federal support of states and localities.

During the period, the Fed maintained the target for the overnight federal funds rate in the unprecedented 0%-to-0.25% range.⁶ With short rates anchored by the Fed, the municipal yield curve remained quite steep during the period.⁷ For the full 12 months, yields on two-year municipal issues barely moved, declining one basis point to 0.60%, while bonds with 30-year maturities started and finished the 12 months at 4.28%. (100 basis points equals one percentage point. See the graph below for municipal bond yield changes from the beginning to the end of the period.)
Municipal Bond Yield Curve (as of 11/30/09 and 11/30/10)

Source: Thompson Reuters

This chart is for illustrative purposes only and is not intended to represent the yield of any DWS fund. Performance is historical and does not guarantee future results.

Positive Contributors to Performance

The fund has the ability to leverage returns to shareholders through the issuance of remarketed preferred shares whose dividend rate is tied to short-term interest rates. With the Fed anchoring short-term rates near zero, the fund's cost of leverage remained low for the 12 months, helping performance.

Given a steep yield curve and Fed policy oriented toward keeping interest rates low, the fund maintained significant exposure to bonds with remaining maturities in the 20-to-30-year range. This allowed the fund to benefit from higher yields available on longer-term issues.

The fund's holdings of prepaid gas utility bonds sponsored by brokerage firms performed well as financial sector concerns continued to ease. Airport-related issues also benefited from credit spread narrowing over the 12 months.

Negative Contributors to Performance

The fund had significant exposure to higher-quality bonds including pre-refunded issues secured by holdings of government securities sufficient to pay off the issue at maturity. These higher-quality bonds lagged as investors sought higher yields available on lower-quality issues, contributing to the fund's modest underperformance versus the funds in the Lipper peer group.

Outlook and Positioning

The relationship between Treasury and municipal yields shifted dramatically over the recently concluded fiscal period. To illustrate, at the end of November 2010, two-year municipals were yielding 133% of comparable maturity Treasuries, as compared to 91% twelve months earlier. The municipal yield curve remains steep and we are maintaining significant exposure to bonds in the 20- to 30-year maturity range. From a credit perspective, we see opportunities among high-yield issues such as those related to hospitals and continuing care retirement communities. The fund has approximately 15% of assets in issues that are either rated BBB or lower.

Given ongoing difficulties with state and local budgets, we expect continued credit pressure on municipal issuers. In addition, the outlook for support from the federal government of municipal finances is cloudy as Washington sorts through the implications of the recent congressional elections.

Despite recent press, we do not expect defaults to become a significant feature of the municipal landscape. Nonetheless, we believe investors who conduct thorough credit research will continue to have an advantage in the current credit environment. Our team of municipal bond analysts is closely monitoring the credits we hold, and we will not hesitate to make changes in the portfolio as conditions dictate.

We will continue to provide a high level of current income exempt from federal income tax.

1 The Lipper General Closed-End Municipal Debt Funds (Leveraged) category includes closed-end funds that invest in general municipal debt issues in the top four credit grades. Lipper figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Lipper Inc. as falling into the General Closed-End Municipal Debt Funds (Leveraged) category. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

2 The Barclays Capital Municipal Bond Index is an unmanaged, unleveraged market-value-weighted measure of municipal bonds issued across the United States. Index issues have a credit rating of at least Baa and a maturity of at least two years.

3 The Barclays Capital US Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

4 "Credit spread" is the additional yield provided by municipal bonds rated AA and below, versus municipals rated AAA with comparable effective maturity.

5 Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA and so forth. The lower the rating, the higher the probability of default.

6 The federal funds rate is the interest rate, set by the US Federal Reserve, at which banks lend money to each other, usually on an overnight basis.

7 The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically, the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields. When the yield curve is characterized as "steep," this is especially true.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio)	11/30/10	11/30/09
Revenue Bonds	70%	67%
General Obligation Bonds	14%	13%
ETM/Prerefunded Bonds	8%	12%
Lease Obligations	8%	8%
	100%	100%

Quality	11/30/10	11/30/09
AAA	15%	23%
AA	27%	20%

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A	43%	36%
BBB	12%	18%
BB	3%	—
Below B	—	1%
Not Rated	—	2%
	100%	100%

Top Five State/Territory Allocations (As a % of Investment Portfolio) 11/30/10 11/30/09

California	16%	15%
New York	13%	12%
Florida	9%	9%
Texas	9%	8%
Tennessee	6%	7%

Asset allocation, quality and top five state allocations are subject to change.

The quality ratings represent the lower of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's and S&P represent their opinions as to the quality of the securities they rate. Ratings are relative and subjective and are not absolute standards of quality. The Fund's credit quality does not remove market risk and is subject to change.

Interest Rate Sensitivity	11/30/10	11/30/09
Effective Maturity	9.5 years	8.6 years
Effective Duration	8.2 years	7.6 years

Effective maturity is the weighted average of the bonds held by the Fund taking into consideration any maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Interest rate sensitivity is subject to change.

For more complete details about the Fund's investment portfolio, see page 12. A quarterly Fact Sheet is available upon request. Please see the Additional Information section for contact information.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.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 www.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 www.dws-investments.com.

Investment Portfolio as of November 30, 2010

	Principal Amount (\$)	Value (\$)
Municipal Bonds and Notes 117.5%		
Alabama 2.1%		

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Camden, AL, Industrial Development Board Revenue, Series B, AMT, Prerefunded, 6.375%, 12/1/2024	1,000,000	1,157,900
Huntsville, AL, Water & Sewer Revenue, AMT, 5.75%, 10/1/2011, INS: NATL	8,560,000	8,592,186 9,750,086
Arizona 0.5%		
Arizona, Salt Verde Financial Corp., Gas Revenue: 5.0%, 12/1/2037	1,050,000	932,190
5.5%, 12/1/2029	1,400,000	1,385,356 2,317,546
California 23.6%		
California, Bay Area Toll Authority, Toll Bridge Revenue, San Francisco Bay Area, Series F-1, 5.125%, 4/1/2039	5,000,000	5,036,750
California, Health Facilities Financing Authority Revenue, Catholic Healthcare West, Series A, 6.0%, 7/1/2039	3,500,000	3,657,255
California, M-S-R Energy Authority, Series A, 7.0%, 11/1/2034	3,180,000	3,670,133
California, San Gorgonio Memorial Health Care, Election of 2006, Series C, 7.2%, 8/1/2039	5,000,000	5,477,450
California, South Bayside Waste Management Authority, Solid Waste Enterprise Revenue, Shoreway Environmental Center, Series A, 6.25%, 9/1/2029	5,345,000	5,682,964
California, Special Assessment Revenue, Golden State Tobacco Securitization Corp., Series 2003-A-1, Prerefunded, 6.75%, 6/1/2039	11,730,000	13,380,177
California, State General Obligation: 5.125%, 4/1/2024	4,400,000	4,534,772
5.5%, 3/1/2040	1,370,000	1,374,302
6.0%, 4/1/2038	10,000,000	10,476,200
California, State Public Works Board, Lease Revenue, Capital Projects, Series I-1, 6.375%, 11/1/2034	2,000,000	2,111,860
California, State Public Works Board, Lease Revenue, Department of Corrections, Series C, 5.5%, 6/1/2021	2,500,000	2,579,675
California, State Public Works Board, Lease Revenue, Department of General Services, Buildings 8 & 9, Series A, 6.25%, 4/1/2034	6,640,000	6,912,506
California, State Public Works Board, Lease Revenue, Department of General Services, Capital East End, Series A, 5.25%, 12/1/2020, INS: AMBAC	10,500,000	10,616,760
California, Statewide Communities Development Authority Revenue, American Baptist Homes of the West, 6.25%, 10/1/2039, GTY: American Baptist Homes of the Midwest	1,250,000	1,223,725
Corona-Norco, CA, Unified School District, Election of 2006, Series A, 5.0%, 8/1/2031, INS: AGMC	5,130,000	5,180,325
Kern, CA, High School District, Election of 2004, Series B, 5.0%, 8/1/2030, INS: AGMC	13,270,000	13,409,335
Los Angeles, CA, Community College District, Election of 2008, Series C, 5.25%, 8/1/2039	3,000,000	3,060,180
Port Oakland, CA, Series A, AMT, 5.0%, 11/1/2027, INS: NATL	5,850,000	5,478,233
San Francisco, CA, City & County Airports Commission, International Airport Revenue, Series F, 5.0%, 5/1/2035	7,105,000	6,957,571 110,820,173
Colorado 2.1%		
	2,500,000	2,473,650

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Colorado, E-470 Public Highway Authority Revenue, Series A-1, 5.5%, 9/1/2024, INS: NATL		
Colorado, Health Facilities Authority Revenue, Covenant Retirement Communities, Inc., 5.0%, 12/1/2035	2,500,000	2,090,775
Colorado, Health Facilities Authority Revenue, Portercare Adventist Health System, Prerefunded, 6.5%, 11/15/2031	1,000,000	1,067,640
Colorado, Single Family Housing Revenue, Series B2, AMT, 7.25%, 10/1/2031	115,000	118,095
Denver, CO, Airport Revenue, Series A, AMT, 6.0%, 11/15/2014, INS: AMBAC	4,140,000	4,154,945 9,905,105
Florida 9.1%		
Miami-Dade County, FL, Aviation Revenue, Series A, 5.5%, 10/1/2041	10,000,000	10,172,000
Miami-Dade County, FL, Aviation Revenue, Miami International Airport: Series A, AMT, 5.25%, 10/1/2033, INS: AGC	8,500,000	8,305,945
Series A-1, 5.375%, 10/1/2035	2,000,000	2,021,160
Miami-Dade County, FL, Educational Facilities Authority Revenue, University of Miami, Series A, 5.75%, 4/1/2028	3,000,000	3,127,530
Miami-Dade County, FL, Expressway Authority, Toll Systems Revenue, Series A, 5.0%, 7/1/2035, INS: AGC	3,000,000	2,962,230
North Brevard County, FL, Hospital District Revenue, Parrish Medical Center Project: 5.5%, 10/1/2028	5,290,000	5,421,457
5.75%, 10/1/2038	5,000,000	5,094,200
Orlando & Orange County, FL, Expressway Authority Revenue: Series C, 5.0%, 7/1/2035	2,705,000	2,670,944
Series A, 5.0%, 7/1/2040	2,975,000	2,911,900 42,687,366
Georgia 7.6%		
Atlanta, GA, Airport Revenue, Series A, 5.0%, 1/1/2035	1,030,000	1,022,821
Atlanta, GA, Water & Wastewater Revenue, Series A, 6.25%, 11/1/2039	5,815,000	6,352,306
Gainesville & Hall County, GA, Hospital Authority Revenue, Anticipation Certificates, Northeast Georgia Healthcare, Series A, 5.5%, 2/15/2045	2,135,000	2,105,644
Georgia, Main Street Natural Gas, Inc., Gas Project Revenue: Series A, 5.0%, 3/15/2020	7,250,000	7,536,810
Series A, 5.5%, 9/15/2024	5,000,000	5,190,900
Series A, 5.5%, 9/15/2028	10,000,000	10,089,700
Georgia, Medical Center Hospital Authority Revenue, Anticipation Certificates, Columbus Regional Healthcare Systems, 6.5%, 8/1/2038, INS: AGC	3,300,000	3,606,339 35,904,520
Hawaii 1.6%		
Hawaii, State Airports Systems Revenue, Series A, 5.0%, 7/1/2039	4,200,000	4,118,394
Hawaii, State Department of Budget & Finance, Special Purpose Revenue, Hawaiian Electric Co., Inc. Series D, AMT, 6.15%, 1/1/2020, INS: AMBAC	2,195,000	2,198,797
6.5%, 7/1/2039, GTY: Hawaiian Electric Co., Inc.	1,000,000	1,072,600 7,389,791
Idaho 1.0%		

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Idaho, Health Facilities Authority Revenue, St. Luke's Regional Medical Center:		
5.0%, 7/1/2035, INS: AGMC	2,500,000	2,500,825
6.75%, 11/1/2037	2,135,000	2,340,216
		4,841,041
Illinois 7.0%		
Chicago, IL, Airport Revenue, O'Hare International Airport, AMT, 5.5%, 1/1/2014, INS: AMBAC	10,000,000	10,128,900
Illinois, Development Finance Authority, Industrial Development Revenue, Home Run Inn Frozen Foods, AMT, 144A, 0.9%*, 4/1/2020, LOC: Bank One NA	610,000	610,000
Illinois, Finance Authority Revenue, Advocate Health Care Network: Series B, 5.375%, 4/1/2044	2,500,000	2,510,650
Series D, 6.5%, 11/1/2038	1,000,000	1,093,630
Illinois, Finance Authority Revenue, Elmhurst Memorial Healthcare, Series A, 5.625%, 1/1/2037	3,000,000	2,778,180
Illinois, Finance Authority Revenue, Memorial Health Systems, 5.5%, 4/1/2039	4,200,000	4,076,520
Illinois, Finance Authority Revenue, Northwest Community Hospital, Series A, 5.5%, 7/1/2038	5,750,000	5,778,002
Illinois, Finance Authority Revenue, Roosevelt University Project, 6.5%, 4/1/2044	3,000,000	3,080,730
Illinois, Metropolitan Pier & Exposition Authority, Dedicated State Tax Revenue, McCormick Place, Series B, 5.0%, 6/15/2050, INS: AGMC	3,000,000	2,880,300
		32,936,912
Indiana 1.8%		
Indiana, Finance Authority Hospital Revenue, Deaconess Hospital Obligation, Series A, 6.75%, 3/1/2039	1,745,000	1,880,761
Indiana, Hospital & Healthcare Revenue, Health Facilities Authority, Prerefunded, 5.5%, 11/1/2031	5,000,000	5,281,100
Indiana, State Development Finance Authority, Industrial Development Revenue, Enterprise Center VI LP Project, AMT, 0.61%*, 6/1/2022, LOC: LaSalle Bank NA	1,100,000	1,100,000
		8,261,861
Kentucky 2.4%		
Kentucky, Economic Development Finance Authority, Health System Revenue, Norton Healthcare: Series A, 6.5%, 10/1/2020	1,210,000	1,224,048
Series A, 6.625%, 10/1/2028	865,000	874,031
Kentucky, Economic Development Finance Authority, Louisville Arena Project Revenue, Series A-1, 6.0%, 12/1/2042, INS: AGC	4,000,000	4,203,280
Louisville & Jefferson County, KY, Metropolitan Government Health System Revenue, Norton Healthcare, Inc., 5.0%, 10/1/2030	5,000,000	4,752,150
		11,053,509
Louisiana 1.1%		
Louisiana, Public Facilities Authority, Hospital Revenue, Lafayette General Medical Center, 5.5%, 11/1/2040	3,000,000	2,939,490
Louisiana, St. John Baptist Parish Revenue, Marathon Oil Corp., Series A, 5.125%, 6/1/2037	2,315,000	2,164,062
		5,103,552
Maryland 0.6%		

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Maryland, State Health & Higher Educational Facilities Authority Revenue, Anne Arundel Health Systems, Series A, 6.75%, 7/1/2039	1,100,000	1,228,920
Maryland, State Health & Higher Educational Facilities Authority Revenue, Washington County Hospital, 5.75%, 1/1/2033	1,500,000	1,492,485
		2,721,405
Massachusetts 4.1%		
Massachusetts, Airport Revenue, U.S. Airways, Inc. Project, Series A, AMT, 5.875%, 9/1/2023, INS: NATL	5,000,000	4,625,600
Massachusetts, State Development Finance Agency Revenue, Babson College, Series A, 0.27%*, 10/1/2032, LOC: Citizens Bank	3,020,000	3,020,000
Massachusetts, State Development Finance Agency Revenue, Groton School, 144A, 0.28%*, 3/1/2034	1,000,000	1,000,000
Massachusetts, State Development Finance Agency Revenue, Harvard University, Series B-2, 5.25%, 2/1/2034	5,000,000	5,471,750
Massachusetts, State Health & Educational Facilities Authority Revenue, Boston Medical Center Project, 5.25%, 7/1/2038	1,885,000	1,726,151
Massachusetts, State Health & Educational Facilities Authority Revenue, Suffolk University, Series A, 5.75%, 7/1/2039	3,570,000	3,619,266
		19,462,767
Michigan 2.4%		
Chippewa County, MI, Hospital & Healthcare Revenue, Chippewa County War Memorial, Series B, 5.625%, 11/1/2014	860,000	851,839
Michigan, State Building Authority Revenue, Facilities Program: Series H, 5.125%, 10/15/2033	2,495,000	2,489,835
Series I, 6.0%, 10/15/2038	1,000,000	1,068,400
Michigan, State Hospital Finance Authority Revenue, Henry Ford Health Hospital, 5.75%, 11/15/2039	5,000,000	4,964,950
Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital, 8.25%, 9/1/2039	1,800,000	2,112,516
		11,487,540
Minnesota 0.3%		
Minneapolis, MN, Health Care Systems Revenue, Fairview Health Services, Series A, 6.75%, 11/15/2032	1,140,000	1,269,629
Mississippi 0.3%		
Warren County, MS, Gulf Opportunity Zone, International Paper Co., Series A, 6.5%, 9/1/2032	1,525,000	1,640,961
Nevada 2.1%		
Henderson, NV, Health Care Facility Revenue, Catholic Healthcare West, Series B, 5.25%, 7/1/2031	10,000,000	10,038,200
New Jersey 3.9%		
New Jersey, Economic Development Authority Revenue, Cigarette Tax, 5.75%, 6/15/2034	1,090,000	1,027,074
New Jersey, Health Care Facilities Financing Authority Revenue, Robert Wood Johnson University, 144A, 0.25%*, 7/1/2029, LOC: Wells Fargo Bank NA	1,600,000	1,600,000
New Jersey, Hospital & Healthcare Revenue, General Hospital Center at Passaic, ETM, 6.75%, 7/1/2019, INS: AGMC	5,000,000	6,263,000
New Jersey, Industrial Development Revenue, Economic Development Authority, Harrogate, Inc., Series A, 5.875%, 12/1/2026	1,400,000	1,273,986
New Jersey, Resource Recovery Revenue, Tobacco Settlement Financing Corp., 5.75%, 6/1/2032	1,515,000	1,602,961

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New Jersey, State Transportation Trust Fund Authority, Transportation Systems:		
Series A, 6.0%, 12/15/2038	1,955,000	2,152,377
Series A, Prerefunded, 6.0%, 12/15/2038	1,045,000	1,333,556
New Jersey, State Turnpike Authority Revenue, Series E, 5.25%, 1/1/2040	1,750,000	1,809,290
New Jersey, Tobacco Settlement Financing Corp., Series 1-A, 5.0%, 6/1/2041	1,700,000	1,092,437
		18,154,681
New York 5.3%		
New York, State Agency General Obligation Lease, Higher Education Revenue, Dormitory Authority, City University, Series A, 5.625%, 7/1/2016	1,500,000	1,672,080
New York, Tobacco Settlement Financing Corp., Series B-1C, 5.5%, 6/1/2019	15,500,000	16,661,570
New York, NY, General Obligation, Series A-6, 144A, 0.28%*, 8/1/2031, LOC: Landesbank Baden-Wurttemberg	5,000,000	5,000,000
Niagara Falls, NY, School District General Obligation, 5.6%, 6/15/2014, INS: AGMC	1,180,000	1,370,653
		24,704,303
North Carolina 0.9%		
North Carolina, Electric Revenue, Municipal Power Agency, Series C, 5.375%, 1/1/2017	1,000,000	1,071,790
North Carolina, Medical Care Commission, Health Care Facilities Revenue, University Health Systems, Series D, 6.25%, 12/1/2033	3,000,000	3,224,580
		4,296,370
Ohio 5.4%		
Buckeye, OH, Tobacco Settlement Financing Authority, Series A-2, 5.875%, 6/1/2030	19,820,000	15,404,302
Cleveland, OH, Water Revenue, Series R, 0.3%*, 1/1/2033, LOC: BNP Paribas	1,200,000	1,200,000
Ohio, State Hospital Facility Revenue, Cleveland Clinic Health: Series A, 5.5%, 1/1/2039	5,000,000	5,225,250
Series B, 5.5%, 1/1/2039	3,500,000	3,657,675
		25,487,227
Oklahoma 0.9%		
Oklahoma, State Turnpike Authority Revenue, Series C, 0.28%*, 1/1/2028	4,000,000	4,000,000
Pennsylvania 3.0%		
Allegheny County, PA, Hospital Development Authority Revenue, University of Pittsburgh Medical, 5.625%, 8/15/2039	1,700,000	1,742,755
Franklin County, PA, Industrial Development Authority Revenue, Chambersburg Hospital Project, 5.375%, 7/1/2042	7,000,000	6,920,900
Pennsylvania, Hospital & Healthcare Revenue, Economic Development Financing Authority, UPMC Health System, Series A, Prerefunded, 6.0%, 1/15/2031	2,570,000	2,614,230
Philadelphia, PA, Airport Revenue, Series A, 5.0%, 6/15/2035	2,835,000	2,860,628
		14,138,513
Puerto Rico 4.2%		
Puerto Rico, Sales Tax Financing Corp., Sales Tax Revenue: Series A, 5.375%, 8/1/2039	3,200,000	3,214,688

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Series A, 6.5%, 8/1/2044	15,000,000	16,711,050 19,925,738
Rhode Island 0.5%		
Rhode Island, Health & Educational Building Corp., Higher Education Facility Revenue, University of Rhode Island, Series A, 6.25%, 9/15/2034	2,000,000	2,152,840
South Carolina 2.8%		
Greenwood County, SC, Hospital & Healthcare Revenue, South Carolina Memorial Hospital, 5.5%, 10/1/2031	1,500,000	1,502,670
South Carolina, Jobs Economic Development Authority, Hospital Facilities Revenue, Palmetto Health Alliance: Series C, Prerefunded, 7.0%, 8/1/2030	5,420,000	6,257,718
Series A, Prerefunded, 7.375%, 12/15/2021	2,000,000	2,045,920
South Carolina, State Ports Authority Revenue, 5.25%, 7/1/2040 (a)	2,550,000	2,565,147
South Carolina, Tobacco Settlement Revenue Management Authority, Series B, 6.0%, 5/15/2022	790,000	810,848 13,182,303
Tennessee 3.4%		
Clarksville, TN, Natural Gas Acquisition Corp., Gas Revenue, 5.0%, 12/15/2021	2,000,000	2,025,540
Jackson, TN, Hospital Revenue, Jackson-Madison Project, 5.625%, 4/1/2038	4,000,000	4,005,600
Memphis-Shelby County, TN, Airport Revenue, Series D, AMT, 6.25%, 3/1/2017, INS: AMBAC	565,000	569,723
Shelby County, TN, Health, Educational & Housing Facility Board, Hospital Revenue, Methodist Health Care, Prerefunded, 6.5%, 9/1/2026	7,000,000	7,717,360
Sullivan County, TN, Health, Educational & Housing Facilities Board, Hospital Revenue, Wellmont Health Systems Project, Series C, 5.25%, 9/1/2036	2,050,000	1,810,437 16,128,660
Texas 13.3%		
Harris County, TX, Health Facilities Development Corp., Hospital Revenue, Memorial Hermann Healthcare System, Series B, 7.25%, 12/1/2035	1,000,000	1,121,000
Harris County, TX, Houston Port Authority, Series A, AMT, 6.25%, 10/1/2029	3,000,000	3,324,030
Houston, TX, Airport Revenue, People Mover Project, Series A, AMT, 5.5%, 7/15/2017, INS: AGMC	3,300,000	3,306,501
North Texas, Tollway Authority Revenue: First Tier, Series A, 5.625%, 1/1/2033	3,500,000	3,504,865
Second Tier, Series F, 5.75%, 1/1/2038	6,500,000	6,510,855
First Tier, 6.0%, 1/1/2043 (a)	5,000,000	5,067,650
Texas, Dallas/Fort Worth International Airport Revenue:		
Series A, 5.25%, 11/1/2038	4,000,000	4,055,400
Series A, AMT, 5.875%, 11/1/2016, INS: FGIC	6,500,000	6,750,250
Texas, Industrial Development Revenue, Waste Disposal Authority, Series A, AMT, 6.1%, 8/1/2024	2,000,000	2,014,600
Texas, Municipal Gas Acquisition & Supply Corp. I, Gas Supply Revenue:		
Series B, 0.746%** , 12/15/2017	9,015,000	8,001,985
Series B, 0.896%** , 12/15/2026	1,500,000	1,013,445
Series D, 6.25%, 12/15/2026	5,000,000	5,503,100

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Texas, SA Energy Acquisition Public Facility Corp., Gas Supply Revenue:		
5.5%, 8/1/2021	1,155,000	1,223,099
5.5%, 8/1/2025	7,250,000	7,716,465
Texas, Southwest Higher Education Authority, Inc., Southern Methodist University Project, 5.0%, 10/1/2035		
	1,600,000	1,632,304
West Harris County, TX, Regional Water Authority, Water Systems Revenue, 5.0%, 12/15/2035		
	1,995,000	1,969,703
		62,715,252
Virginia 0.3%		
Washington County, VA, Industrial Development Authority, Hospital Facility Revenue, Mountain States Health Alliance, Series C, 7.75%, 7/1/2038		
	1,370,000	1,544,168
Washington 1.8%		
Seattle, WA, Special Assessment Revenue:		
Series B, AMT, 5.5%, 9/1/2011, INS: NATL, LIQ: Safeco Insurance Company of America	1,085,000	1,093,539
Series B, AMT, 5.75%, 9/1/2013, INS: NATL, LIQ: Safeco Insurance Company of America	1,045,000	1,052,085
Washington, State Health Care Facilities Authority Revenue, Virginia Mason Medical Center, Series A, 6.125%, 8/15/2037		
	6,000,000	6,093,181
		8,238,805
Wisconsin 2.1%		
Badge, WI, Tobacco Asset Securitization Corp., 6.125%, 6/1/2027		
	2,310,000	2,449,062
Wisconsin, State Health & Educational Facilities Authority Revenue, Aurora Health Care, Inc., Series A, 5.6%, 2/15/2029		
	5,765,000	5,765,574
Wisconsin, State Health & Educational Facilities Authority Revenue, Prohealth Care, Inc. Obligation Group, 6.625%, 2/15/2039		
	1,555,000	1,669,153
		9,883,789
Total Municipal Bonds and Notes (Cost \$515,959,486)		552,144,613
Municipal Inverse Floating Rate Notes (b) 55.5%		
California 4.4%		
California, San Francisco Bay Area Toll Authority, Toll Bridge Revenue, Series F, 5.0%, 4/1/2031 (c)		
	10,000,000	10,129,165
Trust: California, San Francisco Bay Area Toll Authority, Toll Bridge Revenue, Series 1962-5, 144A, 13.334%, 4/1/2031, Leverage Factor at purchase date: 3 to 1		
California, State General Obligation, 5.0%, 6/1/2023, INS: AGMC (c)	10,000,000	10,454,000
Trust: California, State General Obligation, Series 1932, 144A, 9.07%, 6/1/2023, Leverage Factor at purchase date: 2 to 1		20,583,165
Florida 7.0%		
Miami-Dade County, FL, Transit Sales Surtax Revenue, 5.0%, 7/1/2023, INS: AGMC (c)		
	3,740,000	3,788,949
Miami-Dade County, FL, Transit Sales Surtax Revenue, 5.0%, 7/1/2024, INS: AGMC (c)		
	3,915,000	3,966,240
Miami-Dade County, FL, Transit Sales Surtax Revenue, 5.0%, 7/1/2025, INS: AGMC (c)		
	4,122,500	4,176,455
Miami-Dade County, FL, Transit Sales Surtax Revenue, 5.0%, 7/1/2026, INS: AGMC (c)		
	4,317,500	4,374,007

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Miami-Dade County, FL, Transit Sales Surtax Revenue, 5.0%, 7/1/2032, INS: AGMC (c)	16,470,000	16,685,559
Trust: Miami-Dade County, FL, Transit Improvements, Series 2008-1160, 144A, 9.091%, 7/1/2023, Leverage Factor at purchase date: 2 to 1		32,991,210
Massachusetts 5.1%		
Massachusetts, State Water Pollution Abatement Trust, Series 13, 5.0%, 8/1/2032 (c)	18,250,000	18,994,167
Massachusetts, State Water Pollution Abatement Trust, Series 13, 5.0%, 8/1/2037 (c)	5,000,000	5,203,882
Trust: Massachusetts, State Pollution Control, Water Utility Improvements, Series 3159, 144A, 13.272%, 8/1/2032, Leverage Factor at purchase date: 3 to 1		24,198,049
Nevada 6.4%		
Clark County, NV, General Obligation, Limited Tax-Bond Bank, 5.0%, 6/1/2028 (c)	9,447,355	9,729,064
Clark County, NV, General Obligation, Limited Tax-Bond Bank, 5.0%, 6/1/2029 (c)	9,919,723	10,215,517
Clark County, NV, General Obligation, Limited Tax-Bond Bank, 5.0%, 6/1/2030 (c)	9,627,878	9,914,970
Trust: Clark County, NV, General Obligation, Series 3158, 144A, 13.274%, 6/1/2028, Leverage Factor at purchase date: 3 to 1		29,859,551
New York 17.2%		
New York, State Dormitory Authority, State Personal Income Tax Revenue, Series A, 5.0%, 3/15/2026 (c)	13,500,000	14,350,095
Trust: New York, State Dormitory Authority Revenue, Series 2008-1189, 144A, 9.13%, 3/15/2026, Leverage Factor at purchase date: 2 to 1		
New York, State Dormitory Authority, State Personal Income Tax Revenue, Series A, 5.0%, 3/15/2026 (c)	10,000,000	10,553,977
Trust: New York, State Dormitory Authority Revenue, Series 3160, 144A, 13.274%, 3/15/2026, Leverage Factor at purchase date: 3 to 1		
New York, State Dormitory Authority, State Personal Income Tax Revenue, Series A, 5.0%, 3/15/2024 (c)	10,000,000	10,659,000
Trust: New York, State Dormitory Authority Revenue, Secondary Issues, Series 1955-3, 144A, 17.51%, 3/15/2024, Leverage Factor at purchase date: 4 to 1		
New York, State Dormitory Authority Revenues, State Supported Debt, University Dormitory Facilities, 5.0%, 7/1/2025 (c)	5,425,000	5,663,044
New York, State Dormitory Authority Revenues, State Supported Debt, University Dormitory Facilities, 5.0%, 7/1/2027 (c)	8,080,000	8,434,544
Trust: New York, State Dormitory Authority Revenues, Series 3169, 144A, 13.271%, 7/1/2025, Leverage Factor at purchase date: 3 to 1		
New York, Triborough Bridge & Tunnel Authority Revenues, Series C, 5.0%, 11/15/2033 (c)	12,000,000	12,352,920
Trust: New York, Triborough Bridge & Tunnel Authority Revenues, Series 2008-1188, 144A, 9.13%, 11/15/2033, Leverage Factor at purchase date: 2 to 1		
	17,560,000	18,748,461

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New York City, NY, Transitional Finance Authority Revenue, Series C-1, 5.0%, 11/1/2027 (c) Trust: New York City, NY, Series 2008-1190, 144A, 9.13%, 11/1/2027, Leverage Factor at purchase date: 2 to 1		80,762,041
Pennsylvania 2.3% Pennsylvania, State General Obligation, Second Series, 5.0%, 1/1/2025 (c) Trust: Pennsylvania, State General Obligation, Public Transit Improvements, Series 2008-1146, 144A, 9.12%, 1/1/2025, Leverage Factor at purchase date: 2 to 1	10,000,000	10,638,900
Tennessee 7.2% Nashville & Davidson County, TN, Metropolitan Government, 5.0%, 1/1/2027 (c) Trust: Nashville & Davidson County, TN, Metropolitan Government, Series 2631-3, 144A, 17.505%, 1/1/2027, Leverage Factor at purchase date: 4 to 1	10,756,695	11,534,643
Nashville & Davidson County, TN, Metropolitan Government, 5.0%, 1/1/2026 (c) Trust: Nashville & Davidson County, TN, Metropolitan Government, Series 2631-2, 144A, 17.51%, 1/1/2026, Leverage Factor at purchase date: 4 to 1	10,200,000	11,003,148
Nashville & Davidson County, TN, Metropolitan Government, 5.0%, 1/1/2028 (c) Trust: Nashville & Davidson County, TN, Metropolitan Government, Series 2631-4, 144A, 17.518%, 1/1/2028, Leverage Factor at purchase date: 4 to 1	10,564,925	11,260,935
		33,798,726
Texas 2.3% Texas, State General Obligation, Transportation Commission Mobility Fund, 5.0%, 4/1/2025 (c) Trust: Texas, State General Obligation, Series 2008-1147, 144A, 9.12%, 4/1/2025, Leverage Factor at purchase date: 2 to 1	10,000,000	10,878,300
Virginia 3.6% Virginia, State Resource Authority, Clean Water Revenue, 5.0%, 10/1/2027 (c)	8,190,000	8,865,954
Virginia, State Resource Authority, Clean Water Revenue, 5.0%, 10/1/2028 (c) Trust: Virginia, State Resource Authority, Clean Water Revenue, Series 2917, 144A, 11.057%, 10/1/2027, Leverage Factor at purchase date: 2.5 to 1	7,630,000	8,259,735
		17,125,689
Total Municipal Inverse Floating Rate Notes (Cost \$253,690,656)		260,835,631
	% of Net Assets	Value (\$)
Total Investment Portfolio (Cost \$769,650,142)+	173.0	812,980,244
Other Assets and Liabilities, Net	(30.7)	(144,294,394)
Preferred Shares, at Redemption Value	(42.3)	(198,750,000)

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Net Assets Applicable to Common Shareholders	100.0	469,935,850
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* Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are often payable on demand and are shown at their current rate as of November 30, 2010.

** These securities are shown at their current rate as of November 30, 2010. Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the US Treasury bill rate.

+ The cost for federal income tax purposes was \$768,029,380. At November 30, 2010, net unrealized appreciation for all securities based on tax cost was \$44,950,864. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$49,372,977 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$4,422,113.

(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.

AMBAC: Ambac Financial Group, Inc.

AMT: Subject to alternative minimum tax.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

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

FGIC: Financial Guaranty Insurance Co.

GTY: Guaranty Agreement

INS: Insured

LOC: Letter of Credit

LIQ: Liquidity Facility

NATL: National Public Finance Guarantee Corp.

Prerefunded: Bonds which are prerefunded are collateralized usually by US 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.

Fair Value Measurements

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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 inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of November 30, 2010 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 Bonds and Notes (d)	\$—	\$812,980,244	\$—	\$812,980,244
Total	\$—	\$812,980,244	\$—	\$812,980,244

There have been no transfers in and out of Level 1 and Level 2 fair value measurements during the year ended November 30, 2010.

(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 November 30, 2010

Assets	
Investments in securities, at value (cost \$769,650,142)	\$812,980,244
Receivable for investments sold	2,724,825
Interest receivable	12,153,629
Other assets	3,531
Total assets	827,862,229
Liabilities	
Cash overdraft	546,722
Payable for floating rate notes issued	150,596,576
Payable for investments purchased — when-issued securities	7,266,856
Distributions payable	3,073
Accrued management fee	309,854
Other accrued expenses and payables	453,298
Total liabilities	159,176,379
Remarketed preferred shares, at redemption value	198,750,000
Net assets applicable to common shareholders, at value	\$469,935,850
Net Assets Applicable to Common Shareholders Consist of	
Undistributed net investment income	13,330,652
Net unrealized appreciation (depreciation) on investments	43,330,102
Accumulated net realized gain (loss)	(11,593,018)
Paid-in capital	424,868,114
Net assets applicable to common shareholders, at value	\$469,935,850
Net Asset Value	
Net Asset Value per common share (\$469,935,850 ÷ 39,055,581 outstanding shares of beneficial interest, \$.01 par value, unlimited number of common shares authorized)	\$12.03

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

Statement of Operations

for the year ended November 30, 2010

Investment Income

Income:

Interest \$42,490,254

Expenses:

Management fee 3,734,006

Services to shareholders 97,330

Custodian fee 23,053

Professional fees 95,754

Trustees' fees and expenses 17,825

Reports to shareholders 85,195

Remarketing agent fee 496,887

Stock exchange listing fees 36,262

Interest expense and fees on floating rate notes issued 1,253,037

Other 108,460

Total expenses 5,947,809

Net investment income 36,542,445

Realized and Unrealized Gain (Loss)

Net realized gain (loss) from investments 514,510

Change in net unrealized appreciation (depreciation) on investments (126,362)

Net gain (loss) 388,148

Net increase (decrease) in net assets resulting from operations \$36,930,593

Distributions to Remarketed Preferred Shareholders (579,705)

Net increase (decrease) in net assets applicable to common shareholders \$36,350,888

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

Statement of Cash Flows

for the year ended November 30, 2010

Increase (Decrease) in Cash:

Cash Flows from Operating Activities

Net increase (decrease) in net assets resulting from operations (excluding distributions to Remarketed Preferred Shareholders) \$36,930,593

Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:

Purchases of long-term investments (287,230,426)

Net amortization/accretion of premium (discount) (115,258)

Proceeds from sales and maturities of long-term investments 282,098,727

(Increase) decrease in interest receivable 804,061

(Increase) decrease in other assets (3,531)

(Increase) decrease in receivable for investments sold (2,724,825)

Increase (decrease) in payable for investments and — when-issued securities purchased 2,366,966

Increase (decrease) in accrued expenses and payables 22,515

Change in net unrealized (appreciation) depreciation on investments 126,362

Net realized (gain) loss from investments (514,510)

Cash provided (used) by operating activities 31,760,674

Cash Flows from Financing Activities

Net increase (decrease) in cash overdraft 546,722

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Distributions paid (net of reinvestment of distributions)	(32,324,585)
Cash provided (used) for financing activities	(31,777,863)
Increase (decrease) in cash	(17,189)
Cash at beginning of period	17,189
Cash at end of period	\$—
Supplemental Disclosure of Non-Cash Financing Activities:	
Interest expense and fees on floating rate notes issued	\$(1,253,037)
Reinvestment of distributions	1,019,172

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

Statement of Changes in Net Assets

	Years Ended November 30,	
	2010	2009
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	\$36,542,445	\$39,391,748
Net realized gain (loss)	514,510	(1,926,994)
Change in net unrealized appreciation (depreciation)	(126,362)	80,737,037
Net increase (decrease) in net assets resulting from operations	36,930,593	118,201,791
Distributions to Remarketed Preferred Shareholders	(579,705)	(1,368,706)
Net increase (decrease) in net assets applicable to common shareholders	36,350,888	116,833,085
Distributions to common shareholders from:		
Net investment income	(32,760,745)	(30,488,761)
Fund share transactions:		
Net proceeds from shares issued to common shareholders in reinvestment of distributions	1,019,172	—
Net increase (decrease) in net assets from Fund share transactions	1,019,172	—
Increase (decrease) in net assets	4,609,315	86,344,324
Net assets at beginning of period applicable to common shareholders	465,326,535	378,982,211
Net assets at end of period applicable to common shareholders (including undistributed net investment income of \$13,330,652 and \$10,927,124, respectively)	\$469,935,850	\$465,326,535
Other Information		
Common shares outstanding at beginning of period	38,973,231	38,973,231
Shares issued to common shareholders in reinvestment of distributions	82,350	—
Common shares outstanding at end of period	39,055,581	38,973,231

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

Financial Highlights

Years Ended November 30,	2010	2009	2008	2007	2006
Selected Per Share Data Applicable to Common Shareholders					
Net asset value, beginning of period	\$11.94	\$9.72	\$11.79	\$12.17	\$12.14
Income (loss) from investment operations:					
Net investment income	.94	1.01	.91	.85	.86
Net realized and unrealized gain (loss)	.00	* 2.03	(2.15)	(.38)	.03
Total from investment operations	.94	3.04	(1.24)	.47	.89
Distributions to Remarketed Preferred Shareholders from net investment income (common share equivalent)	(.01)	(.04)	(.24)	(.27)	(.24)
Net increase (decrease) in net assets from operations applicable to common	.93	3.00	(1.48)	.20	.65

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shareholders

Less distributions applicable to common shareholders from:

Net investment income	(.84)	(.78)	(.59)	(.58)	(.62)
Reimbursement by Advisor	—	—	—	.00 *	—
Net asset value, end of period	\$12.03	\$11.94	\$9.72	\$11.79	\$12.17
Market price, end of period	\$12.12	\$11.36	\$8.26	\$10.43	\$10.98
Total Return					
Based on net asset value (%) ^c	7.94	32.65	(12.55) ^b	2.04	b,d 5.88
Based on market price (%) ^c	14.30	48.52	(16.00)	.06	(6.47)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period (\$ millions)	470	465	379	459	474
Ratio of expenses before fee reductions (%) (based on net assets of common shares, including interest expense) ^{e,f}	1.24	1.49	2.04	1.39	1.10
Ratio of expenses after fee reductions (%) (based on net assets of common shares, including interest expense) ^{e,g}	1.24	1.49	2.03	1.38	1.09
Ratio of expenses after fee reductions (%) (based on net assets of common shares, excluding interest expense) ^h	.98	1.14	1.15	1.10	1.09

Years Ended November 30, (continued)	2010	2009	2008	2007	2006
Ratio of net investment income (%) (based on net assets of common shares)	7.61	9.17	8.08	7.19	7.13
Ratio of net investment income (%) (based on net assets of common and remarketed preferred shares)	5.38	5.83	5.04	4.57	4.55
Portfolio turnover rate (%)	34	61	119	57	33
Remarketed preferred shares information at end of period:					
Aggregate amount outstanding (\$ millions)	199	199	265	265	265
Asset coverage per share (\$) ⁱ	16,822	16,706	12,151	13,667	13,949
Liquidation and market price per share (\$)	5,000	5,000	5,000	5,000	5,000

a Based on average common shares outstanding during the period.

b Total return would have been lower had certain fees not been reduced.

c 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 gains 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.

d Includes a non-recurring reimbursement of \$175,116 from the Advisor for a fee previously charged to the Fund. Excluding this non-recurring reimbursement, total return would have been 0.04% lower.

e Interest expense represents interest and fees on short term floating rate notes issued in conjunction with inverse floating rate securities. Interest income from such transactions is included in income from investment operations.

f The ratio of expenses before fee reductions (based on net assets of common and remarketed preferred shares, including interest expense) were .88%, .95%, 1.28%, .88% and .71% for the periods ended November 30, 2010, 2009, 2008, 2007 and 2006, respectively.

g The ratio of expenses after fee reductions (based on net assets of common and remarketed preferred shares, including interest expense) were .88%, .95%, 1.27%, .88% and .70% for the periods ended November 30, 2010, 2009, 2008, 2007 and 2006, respectively.

h The ratio of expenses after fee reductions (based on net assets of common and remarketed preferred shares, excluding interest expense) were .69%, .72%, .72%, .70% and .70% for the periods ended November 30, 2010, 2009, 2008, 2007 and 2006, respectively.

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

* Amount is less than \$.005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

DWS 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 inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Municipal debt securities are valued by independent pricing services approved by the Fund's Board, whose valuations are intended to reflect the mean between the bid and asked prices. 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. 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

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 used 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 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 a security, the transaction is recorded and the value of the security 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. No interest accrues to the Fund until payment takes place. At the time the Fund enters into this type of 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 securities 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. Inverse floating rate notes are debt instruments with a weekly floating rate of interest that bears an inverse relationship to changes in short-term market interest rates. Investments in this type of instrument involve special risks as compared to investments in a fixed rate municipal security. The debt instrument in which the Fund may invest is a tender option bond trust (the "trust") which can be established by the Fund, a financial institution, or broker, consisting of underlying municipal obligations with intermediate to long maturities and a fixed interest rate ("underlying bond"). Other investors in the trust usually consist of money market fund investors receiving weekly floating interest rate payments who have put options with the financial institutions. The Fund may enter into shortfall and forbearance agreements by which a Fund agrees to reimburse the trust, in certain circumstances, for the difference between the liquidation value of the fixed rate municipal security held by the trust and the liquidation value of the floating rate notes. Certain inverse floating rate securities held by the Fund have been created with bonds purchased by the Fund and subsequently transferred to the trust. These transactions are considered a form of financing for accounting purposes. As a result, the Fund includes the underlying bond in its investment portfolio and a corresponding liability in the statement of assets and liabilities equal to the floating rate note issued. When a trust is terminated and/or collapsed by either party, the related fixed rate securities held by the trust are delivered back to the Fund where they are either held or sold, and the related liability of the floating rate note issued is adjusted. The Fund does not consider the Fund's investment in inverse floaters borrowing within the meaning of the Investment Company Act of 1940. Inverse floating rate notes exhibit added interest rate sensitivity compared to other bonds with a similar maturity. Moreover, since these securities are in a trust form, a sale may take longer to settle than the standard two days after the trade date.

The weighted average outstanding daily balance of the floating rate notes during the year ended November 30, 2010 was approximately \$150,597,000 with a weighted average interest rate of 0.83%.

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.

At November 30, 2010, the Fund had a net tax basis capital loss carryforward of approximately \$12,969,000, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until November 30, 2011 (\$1,323,000), November 30, 2014 (\$912,000), November 30, 2016 (\$7,370,000), November 30, 2017 (\$2,864,000) and November 30, 2018 (\$500,000), the respective expiration dates, whichever occurs first.

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The Fund has reviewed the tax positions for the open tax years as of November 30, 2010 and has determined that no provision for income tax 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. Net investment income of the Fund is 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 timing and characterization of certain income and capital gains 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.

At November 30, 2010, the Fund's components of distributable earnings (accumulated losses) on a tax-basis were as follows:

Undistributed tax-exempt income	\$13,333,724
Capital loss carryforwards	\$(12,969,000)
Net unrealized appreciation (depreciation) on investments	\$44,950,864

In addition, the tax character of distributions paid to shareholders by the Fund is summarized as follows:

	Years Ended November 30,	
	2010	2009
Distributions from tax-exempt income	\$33,340,450	\$31,026,967
Distributions from ordinary income	\$—	\$830,500

Remarketed Preferred Shares. The Fund has issued and outstanding 8,100 Series A, 8,025 Series B, 8,100 Series C, 8,025 Series D and 7,500 Series E remarketed preferred shares ("Remarketed Preferred Shares"), each at a liquidation value of \$5,000 per share. The Remarketed Preferred Shares are senior to and have certain class specific preferences over the common shares. The dividend rate on each series of Remarketed Preferred Shares is set through a remarketing process, and the dividends are generally paid every seven days. The remarketing agent receives an annualized fee from the Fund of 0.25% times the liquidation value of the Fund's Remarketed Preferred Shares (remarketing agent fee) and is responsible for the payment of any commissions to broker-dealers participating in the remarketing process based on shares sold. Currently, the remarketing agent is the only participating broker-dealer.

For remarketing to be successful, the number of Remarketed Preferred Shares bid must meet or exceed the number of Remarketed Preferred Shares being offered for sale. Since February 2008, remarketings of the Remarketed Preferred Shares have failed. Under the terms of the Remarketed Preferred Shares designation statement, in the event of a failed remarketing, the Remarketed Preferred Shares' dividend rate adjusts to a "maximum rate." Based on current Remarketed Preferred Share ratings (AAA as of November 30, 2010), the maximum rate is 125% of the Commercial Paper Rate (generally defined as the 60-day AA/Aa commercial paper rate). The next succeeding dividend period following the remarketing failure automatically adjusts to a 7-day period, which continues until the next successful remarketing. Remarketed Preferred Shareholders may offer their shares for sale at the next scheduled remarketing, subject to the same risk that the subsequent remarketing will not attract sufficient demand for a successful remarketing to occur. Broker-dealers may also try to facilitate secondary trading in the Remarketed Preferred Shares, although such secondary trading may be limited and may only be available for shareholders willing to sell at a discount.

While prolonged remarketing failures have affected the liquidity for the Remarketed Preferred Shares, a failed remarketing does not represent a default on or loss of capital of, the Fund's Remarketed Preferred Shares and the

Remarketed Preferred Shareholders have continued to receive dividends at the previously defined "maximum rate." As of November 30, 2010, the Remarketed Preferred Shares of the Fund continue to be AAA rated by the respective rating agencies. Prolonged remarketing failures may increase the cost of leverage to the Fund.

During the year ended November 30, 2010, the dividend rates ranged from 0.150% to 0.600% for Series A, 0.150% to 0.600% for Series B, 0.150% to 0.600% for Series C, 0.150% to 0.600% for Series D and 0.150% to 0.525% for Series E. The 1940 Act requires that the Remarketed 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 Remarketed Preferred Shares are unpaid for two full years. Unless otherwise required by law or under the terms of the Remarketed Preferred Shares designation statement, each Remarketed Preferred Shareholder is entitled to one vote and Remarketed Preferred Shareholders will vote together with common shareholders as a single class and have the same voting rights.

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 overdraft at the Fund's custodian bank at November 30, 2010.

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 year ended November 30, 2010, purchases and sales of investment securities (excluding short-term investments) aggregated \$287,230,426 and \$282,098,727, 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 annualized rate of 0.55% of the Fund's average weekly total net assets, computed and accrued daily and payable monthly.

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 year ended November 30, 2010, the amount charged to the Fund by DISC aggregated \$65,024, of which is \$14,707 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 year ended November 30, 2010, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated \$11,918, of which \$7,057 is unpaid.

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

Other Related Parties. Deutsche Bank Trust Company Americas, an affiliate of the Advisor, charges an administration fee for the remarketed preferred shares. For the year ended November 30, 2010, the amount charged to the Fund by Deutsche Bank Trust Company Americas included in the Statement of Operations under "other" aggregated \$25,030, all of which was paid.

D. Line of Credit

Prior to April 1, 2010, the Fund and other affiliated funds (the "Participants") shared in a \$450 million revolving credit facility provided by a syndication of banks. The Fund could borrow for temporary or emergency purposes. The Participants were charged an annual commitment fee which was allocated based on net assets, among each of the Participants. Interest was calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund could borrow up to a maximum of 33 percent of its net assets under the agreement. Effective April 1, 2010, the Fund elected not to participate in the revolving credit facility.

E. Share Repurchases

Under a program initially authorized by the Board of Trustees in July 2009, and subsequently renewed in 2010, the Fund is authorized 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 year ended November 30, 2010, the Fund did not repurchase shares.

In accordance with Section 23(c) of the Investment Company Act of 1940, as amended, the Fund hereby gives notice that it may from time to time repurchase its shares in the open market.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of DWS Municipal Income Trust:

We have audited the accompanying statement of assets and liabilities of DWS Municipal Income Trust (the "Fund"), including the investment portfolio, as of November 30, 2010, and the related statements of operations and cash flows for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2010, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Municipal Income Trust at November 30, 2010 the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

January 21, 2011

Tax Information (Unaudited)

Of the dividends paid from net investment income for the taxable year ended November 30, 2010, 100% are designated as exempt-interest dividends for federal income tax purposes.

Please contact a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please call (800) 294-4366.

Other Information

The Fund de-listed its common shares from trading on the Chicago Stock Exchange ("CHX") effective December 31, 2010. The Fund's Board of Trustees approved the de-listing of the Fund from the CHX in consideration of efficient management of the Fund's costs, the Fund's primary listing on the New York Stock Exchange ("NYSE") and minimal trading activity of its shares on the CHX. Shares of the Fund will continue to be listed and traded on its primary exchange, the NYSE, and the de-listing is not expected to affect trading on that exchange.

Dividend Reinvestment 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 visiting the Fund's Web site at www.dws-investments.com or by writing or calling DWS Investment Service Company ("DISC") at:

P.O. Box 219066

Kansas City, Missouri 64121-9066

(800) 294-4366