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DWS STRATEGIC MUNICIPAL INCOME TRUST  
Form N-CSR  
February 08, 2007  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-05767

DWS Strategic Municipal Income Trust

(Exact Name of Registrant as Specified in Charter)

222 South Riverside Plaza

Chicago, IL 60606

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, including Area Code (212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154

(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/06

**ITEM 1. REPORT TO STOCKHOLDERS**

NOVEMBER 30, 2006

# Annual Report to Shareholders

## DWS Strategic Municipal Income Trust

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Investments in funds involve risk. Certain investors' income may be subject to the federal Alternative Minimum Tax (AMT), and federal, state and local taxes may also apply. The fund invests in individual bonds whose yields and market values fluctuate, so that your investment may be worth more or less than its original cost. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline and the investor can lose principal value. 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.

*DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Asset Management, Inc., Deutsche Investment Management Americas Inc. and DWS Trust Company.*

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

### Performance Summary November 30, 2006

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.cef.dws-scudder.com](http://www.cef.dws-scudder.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 all periods shown reflect a custodian fee reduction. Without this fee reduction, returns and rankings would have been lower.

| Average Annual Total Returns as of 11/30/06                              |        |        |        |         |
|--|--------|--------|--------|---------|
| DWS Strategic Municipal Income Trust                                     | 1-Year | 3-Year | 5-Year | 10-Year |
| Based on Net Asset Value <sup>(a)</sup>                                  | 7.80%  | 7.79%  | 8.24%  | 7.32%   |
| Based on Market Price <sup>(a)</sup>                                     | -8.02% | 6.01%  | 7.54%  | 6.92%   |
| Lehman Brothers Municipal Bond Index <sup>+</sup>                        | 6.12%  | 4.69%  | 5.40%  | 5.75%   |
| Lipper Closed-End High Yield Municipal Debt Funds Category <sup>++</sup> | 10.80% | 8.91%  | 7.27%  | 5.94%   |

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

| Net Asset Value and Market Price |                |                |
|----------------------------------|----------------|----------------|
|                                  | As of 11/30/06 | As of 11/30/05 |
| Net Asset Value                  | \$ 12.48       | \$ 12.29       |
| Market Price                     | \$ 12.26       | \$ 14.15       |

Prices and net asset value fluctuate and are not guaranteed.

<sup>(a)</sup> Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. 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.

<sup>+</sup> The Lehman Brothers 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 assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

<sup>++</sup> The Lipper Closed-End High Yield Municipal Debt Funds category includes funds that invest at least 50% of their assets in lower-rated municipal debt issues. Lipper figures represent the average of the total returns at Net Asset Value reported by all of the closed-end funds designated by Lipper Inc. as falling into the Closed-End High Yield Municipal Debt Funds Category. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

| Distribution Information   |         |
|--|---------|
| Twelve Months:   |         |
| Income Dividends (common shareholders) as of 11/30/06  | \$.75   |
| November Income Dividend (common shareholders)   | \$.0550 |
| Current Annualized Distribution Rate (Based on Net Asset Value) as of 11/30/06 <sup>++</sup> | 5.29%   |
| Current Annualized Distribution Rate (Based on Market Price) as of 11/30/06 <sup>++</sup>    | 5.38%   |
| Tax Equivalent Distribution Rate (Based on Net Asset Value) as of 11/30/06 <sup>++</sup>     | 8.14%   |
| Tax Equivalent Distribution Rate (Based on Market Price) as of 11/30/06 <sup>++</sup>        | 8.28%   |

<sup>++</sup> Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on November 30, 2006. 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 Closed-End High Yield Municipal Debt Funds Category as of 11/30/06 |       |                         |                        |
|--|-------|-------------------------|------------------------|
| Period   | Rank  | Number of Funds Tracked | Percentile Ranking (%) |
| 1-Year   | 14 of | 15                      | 88                     |

|         |    |    |    |    |
|---------|----|----|----|----|
| 3-Year  | 11 | of | 15 | 69 |
| 5-Year  | 2  | of | 12 | 16 |
| 10-Year | 1  | of | 12 | 8  |

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 Strategic Municipal Income Trust: A Team Approach to Investing

Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor"), which is part of Deutsche Asset Management, is the investment advisor for DWS Strategic Municipal Income Trust. DeIM and its predecessors have more than 80 years of experience managing mutual funds and DeIM provides a full range of investment advisory services to institutional and retail clients. DeIM is also responsible for selecting brokers and dealers and for negotiating brokerage commissions and dealer charges.

Deutsche Asset Management is a global asset management organization that offers a wide range of investing expertise and resources. This well-resourced global investment platform brings together a wide variety of experience and investment insight across industries, regions, asset classes and investing styles.

### Portfolio Management Team

*Philip G. Condon*

Managing Director of Deutsche Asset Management and Lead Manager of the fund.

Joined Deutsche Asset Management in 1983 and the fund in 1998.

Over 29 years of investment industry experience.

BA, MBA, University of Massachusetts at Amherst.

*Rebecca Flinn*

Vice President of Deutsche Asset Management and Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1986 and the fund in 1998.

Over 19 years of investment industry experience.

BA, University of Redlands, California.

Philip G. Condon serves as lead portfolio manager of DWS Strategic Municipal Income Trust. Rebecca L. Flinn is a portfolio manager. In the following interview, the DWS municipal bond team discusses the fund's performance for the period and the market environment for municipal bonds.

#### Q: Will you describe the general market environment during the annual period ended November 30, 2006?

**A:** Municipal bonds delivered solid results over the period. The municipal bond market, as measured by the Lehman Brothers Municipal Bond Index, delivered a positive total return of 6.12% for the 12 months ended November 30, 2006.<sup>1</sup> The broad bond market, as measured by the Lehman Brothers Aggregate Bond Index, delivered a total return of 5.94% for the same period.<sup>2</sup>

<sup>1</sup> The Lehman Brothers 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.

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<sup>2</sup> The Lehman Brothers Aggregate Bond Index is an unmanaged, unleveraged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities with average maturities of one year or more.

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

For much of the period, the US Federal Reserve Board (the Fed) continued to gradually increase short-term interest rates as it attempted to move to a neutral monetary policy. Specifically, the federal funds rate (fed funds rate) the overnight interbank lending rate and a benchmark for interest rates generally was raised five times by 0.25%, to its current level of 5.25%. As a result, yields on shorter-term issues, which are most directly impacted by Fed rate changes, rose significantly. By contrast, yields on longer-term municipal bonds fell significantly. Since a bond's yield moves in the opposite direction of its price, this meant that long-term bonds generally provided the strongest performance.

The relationship between supply of, and demand for, municipal issues can be an important factor in the performance of this market. High demand or low supply can drive municipal bond prices higher, while low demand or high supply can have the reverse effect. Municipal supply nationally began to ease in late 2005, and remained lower for much of 2006, before beginning to uptick as rates fell. On the demand side, the municipal market has been increasingly driven by institutional investors using nontraditional strategies to benefit in a leveraged fashion from disparities between the tax-free and taxable markets. In addition, there has been strong interest from foreign buyers due to attractive features of the municipal market such as a relatively steep yield curve and low volatility compared to other available markets.<sup>3</sup> The combination of lightening supply of, and strong institutional demand for, municipal issues contributed to their strong performance.

<sup>3</sup> 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 (and when the yield curve is characterized as "steep," this is especially true) 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.

The municipal bond yield curve flattened during the 12-month period. The two-year bond yield increased 21 basis points from 3.24% to 3.45% while the 30-year yield fell 64 basis points to 3.91% from 4.55%, resulting in a total flattening of 85 basis points. (See the graph below for municipal bond yield changes from the beginning to the end of the period.)

High-yield municipal bonds continued to outperform the broader municipal market over the annual period. Interest rates remain

### **Municipal Bond Yield Curve** (as of 11/30/05 and 11/30/06)

Source: Municipal Market Data, AAA-rated universe

This chart is not intended to represent the yield of any DWS fund.

low by historical standards and investors continue to seek out higher-yielding, lower-quality investments. This increase in demand led high-yield securities to outperform higher-quality bonds in the period. In addition, the US economy continued to show signs of improvement for most of the period, strengthening the outlook for entities that issue high-yield bonds. As a result, the yield spread provided by high-yield bonds to compensate investors for assuming the incremental risk of these issues narrowed during the period, with a positive impact on prices.<sup>4</sup>

### **Q: How did DWS Strategic Municipal Income Trust perform for the 12-month period ended November 30, 2006?**

**A:** For the period, DWS Strategic Municipal Income Trust delivered a total return based on net asset value (NAV) of 7.80%. The fund posted a total return based on market value of -8.02%. Its average peer in the Lipper Closed-End High Yield Municipal Debt Funds category delivered 10.80% in the period (based on NAV).<sup>5</sup> The fund's benchmark, the unmanaged, unleveraged Lehman Brothers Municipal Bond Index, returned 6.12%. (Past performance is no guarantee of future results. Please see pages 4 through 5 for more complete performance information.)

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<sup>4</sup> The yield spread is the difference between the yield of a municipal bond security and the yield of an AAA-rated municipal credit. A large spread indicates that investors require yields substantially above those of Treasuries in order to invest in high-yield bonds. This is generally indicative of a higher-risk environment. A smaller spread generally indicates a more positive environment, since investors are less concerned about risk and therefore willing to accept lower yields. A drop in the yield spread is a positive.

<sup>5</sup> The Lipper Closed-End High Yield Municipal Debt Funds category includes funds that invest at least 50% of their assets in lower-rated municipal debt issues. 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 Closed-End High Yield Municipal Debt Funds category. For the one-, five- and 10-year periods, this category's average was 10.80% (15 funds), 7.27% (12 funds) and 5.94% (12 funds), respectively, as of 11/30/06. Category returns assume reinvestment of all distributions. It is not possible to invest directly into a Lipper category.

We believe the fund's return based on market value is primarily the result of reductions in the fund's dividend over the period. These reductions reflected increased borrowing costs related to the fund's preferred shares. The reduced dividend rate allowed us to keep distributions in balance with net earnings.

### **Q: How was the fund positioned, and how did this positioning contribute to its performance for the annual period?**

**A:** Over the period we managed the fund to preserve its earnings capacity, and in this vein we continued to avoid excessive sales of bonds carrying high distribution yields. As a result, the fund's duration profile has shortened, with an increase in exposure to maturities under 10 years.<sup>6</sup> The fund's conservative structure with respect to interest rates constrained returns to a degree given the significant decline in long-term rates over the year. We expect to move the fund to a more neutral duration going forward.

<sup>6</sup> Duration is a measure of bond price volatility. Duration can be defined as the approximate percentage change in price for a 100-basis-point (one single percentage point) change in market interest rate levels. A duration of 1.25, for example, means that the price of a bond or bond portfolio should rise by approximately 1.25% for a one-percentage-point drop in interest rates, and that it should fall by 1.25% for a one-percentage-point rise in interest rates.

The flattening of the yield curve that has occurred has significantly reduced the income advantage provided by longer-term issues. In fact, at the end of the period, yields of 30-year AAA-rated municipal bonds were at their lowest levels in a generation. In this environment, among investment-grade bonds we are currently emphasizing maturities in the 10- to 15-year range that are priced to a call.

The fund's returns were somewhat constrained by our relative underweighting (relative to the benchmark) of lower-quality, higher-yielding bonds, which outperformed over the period. Our selection within airline-related issues helped performance, as we managed to avoid most of the direct impact of the Delta and Northwest bankruptcy filings. During the period we increased our exposure to longer-term issues related to senior living centers. Our holdings of hospital and senior living issues helped returns as these sectors benefited from spread tightening and refunding activity (which generally results in an improved credit profile for the affected issues). Ongoing refunding activity is the principal explanation for the increased representation of AAA-rated prerefunded bonds in the fund versus 12 months ago.

Overall, the yield advantage provided by high-yield issues has been at historical lows, and we did not feel that we could justify any significant tilt toward lower quality given the minimal incremental reward. We believe the fund is well-positioned given the current risk/reward profile of the high-yield market.

As noted earlier, institutional investors using nontraditional strategies have been driving a fundamental shift in the dynamics of the municipal market. As a result, we believe the municipal yield curve has not only flattened but can be expected to remain flatter than its history suggests is the norm. In addition, as the use of municipal bonds in hedging strategies increases, their returns are becoming more influenced by those of other markets. We are monitoring these trends closely and factoring them into our decisions with respect to yield curve exposure.

At the end of the period, the 10-year municipal bond was yielding nearly 80% of the comparable maturity Treasury bond before taking into account the impact of taxes, reflecting in our view a reasonably attractive valuation. Going forward, we will continue to manage the fund's credit profile opportunistically, adjusting our exposure to

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lower-quality issues up or down in view of the relative value they present. With credit spreads currently narrow by historical standards, we believe our somewhat defensive stance from a quality perspective has us well-positioned for the next high-yield market cycle. We will continue to take a prudent approach to investing in the municipal market, while seeking to maintain an attractive dividend.

*The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' 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.*

### Portfolio Summary

| Asset Allocation         | 11/30/06 | 11/30/05 |
|--------------------------|----------|----------|
| Revenue Bonds            | 61%      | 71%      |
| ETM/Prerefunded Bonds    | 33%      | 22%      |
| General Obligation Bonds | 4%       | 5%       |
| Lease Obligations        | 2%       | 2%       |
|                          | 100%     | 100%     |

| Quality   | 11/30/06 | 11/30/05 |
|-----------|----------|----------|
| AAA       | 36%      | 36%      |
| AA        | 5%       | 5%       |
| A         | 10%      | 9%       |
| BBB       | 17%      | 18%      |
| BB        | 2%       | 1%       |
| B         | 1%       | 1%       |
| Below B   | 2%       | 2%       |
| Not Rated | 27%      | 28%      |
|           | 100%     | 100%     |

| Interest Rate Sensitivity | 11/30/06  | 11/30/05  |
|---------------------------|-----------|-----------|
| Average Maturity          | 4.7 years | 6.0 years |
| Duration                  | 4.0 years | 4.7 years |

| Top Five State Allocations (% of Total Investment Portfolio) | 11/30/06 | 11/30/05 |
|--|----------|----------|
| Texas  | 15%      | 15%      |
| New York   | 10%      | 10%      |
| California   | 6%       | 7%       |
| Illinois   | 6%       | 8%       |
| Maryland   | 6%       | 5%       |

*Asset allocation, quality, interest rate sensitivity and top five state allocations are subject to change. Duration shown does not account for the leverage position of the Fund.*

*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.*

*For more complete details about the Fund's investment portfolio, see page 13. 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](http://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.

### Investment Portfolio as of November 30, 2006

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|  | Principal Amount<br>(\$) | Value (\$)        |
|--|--------------------------|-------------------|
| <b>Municipal Bonds and Notes 149.0%</b>  |                          |                   |
| <b>Alabama 2.9%</b>  |                          |                   |
| Alabama, Sales & Special Tax Revenue, Public School and College Authority, Series C, 5.625%, 7/1/2013                                    | 1,000,000                | 1,063,990         |
| Huntsville, AL, Hospital & Healthcare Revenue, Health Care Authority, Series A, 5.75%, 6/1/2031  | 1,500,000                | 1,614,270         |
| Montgomery, AL, Medical Clinic Board, Health Care Facility Revenue, Jackson Hospital & Clinic, 5.25%, 3/1/2036                           | 250,000                  | 263,560           |
| Sylacauga, AL, Health Care Authority Revenue, Coosa Valley Medical Center, Series A, 6.0%, 8/1/2035                                      | 1,000,000                | 1,045,240         |
|  |                          | <b>3,987,060</b>  |
| <b>Arizona 1.4%</b>  |                          |                   |
| Arizona, Project Revenue, Health Facilities Authority, The New Foundation Project, 8.25%, 3/1/2019                                       | 1,900,000                | <b>1,909,671</b>  |
| <b>California 9.2%</b>   |                          |                   |
| California, Special Assessment Revenue, Golden State Tobacco Securitization Corp.:   |                          |                   |
| Series B, 5.625%, 6/1/2038   | 1,890,000                | 2,116,535         |
| Series 2003-A-1, 6.75%, 6/1/2039   | 4,500,000                | 5,178,825         |
| California, State Public Works Board, Lease Revenue, Department of Corrections, Series C, 5.5%, 6/1/2019                                 | 1,920,000                | 2,134,118         |
| Sacramento County, CA, Sales & Special Tax Revenue, Bradshaw Road Project, 7.2%, 9/2/2015  | 1,050,000                | 1,057,970         |
| Sacramento, CA, Project Revenue, City Financing Authority, Convention Center Hotel, Series A, 6.25%, 1/1/2030                            | 2,000,000                | 2,087,140         |
|  |                          | <b>12,574,588</b> |
| <b>Colorado 5.6%</b>   |                          |                   |
| Colorado, Health Facilities Authority Revenue, Adventist Health Sunbelt, Series D, 5.25%, 11/15/2027                                     | 1,500,000                | 1,623,900         |
| Colorado, Health Facilities Authority Revenue, Christian Living Communities Project, Series A, 5.75%, 1/1/2037                           | 1,000,000                | 1,053,050         |
| Colorado, Hospital & Healthcare Revenue, Portercare Adventist Health Project, 6.5%, 11/15/2031   | 1,000,000                | 1,138,240         |
| Colorado, Transportation/Tolls Revenue, Northwest Parkway Public Highway Authority, Series D, 7.125%, 6/15/2041                          | 1,150,000                | 1,213,388         |
| Denver, CO, Sales & Special Tax Revenue, Urban Renewal Authority, AMT, 7.75%, 9/1/2016   | 1,515,000                | 1,544,967         |
| Mesa County, CO, Valley School District No. 051 Grand Junction, Series A, 5.0%, 12/1/2024 (a)  | 1,000,000                | 1,075,350         |
|  |                          | <b>7,648,895</b>  |
| <b>Connecticut 2.8%</b>  |                          |                   |
| Greenwich, CT, Multi-Family Housing Revenue, 6.35%, 9/1/2027   | 2,000,000                | 2,086,140         |
| Mashantucket, CT, Sports, Expo & Entertainment Revenue, Mashantucket Western Pequot Tribe:   |                          |                   |
| Series B, 144A, Zero Coupon, 9/1/2017  | 2,000,000                | 1,180,940         |
| Series B, 144A, Zero Coupon, 9/1/2018  | 1,000,000                | 560,310           |
|  |                          | <b>3,827,390</b>  |
| <b>District of Columbia 0.8%</b>   |                          |                   |
| District of Columbia, General Obligation:  |                          |                   |
| Series A, Prerefunded, 5.0%, 6/1/2018 (a)  | 340,000                  | 350,655           |
| Series A, 5.0%, 6/1/2018 (a)   | 660,000                  | 678,434           |
|  |                          | <b>1,029,089</b>  |
| <b>Florida 5.1%</b>  |                          |                   |
| Miami Beach, FL, Health Facilities Authority Hospital Revenue, Mount Sinai Medical Center, 144A, 6.75%, 11/15/2029                       | 1,600,000                | 1,855,360         |
| Nassau County, FL, ICF/MR-Intercare Facilities Mentally Retarded Revenue, GF/Amelia Island Properties Project, Series A, 9.75%, 1/1/2023 | 1,810,000                | 1,815,955         |
| Orlando, FL, Greater Aviation Authority, Airport Facilities Revenue, Jet Blue Airways Corp., AMT, 6.5%, 11/15/2036                       | 1,000,000                | 1,049,830         |
| Orlando, FL, Special Assessment Revenue, Conroy Road Interchange Project, Series A, 5.8%, 5/1/2026                                       | 1,000,000                | 1,032,260         |
| Pasco County, FL, School Board Certificates of Participation, 3.48%*, 8/1/2026 (a)   | 1,200,000                | 1,200,000         |
|  |                          | <b>6,953,405</b>  |
| <b>Georgia 1.0%</b>  |                          |                   |
| Americus-Sumter County, GA, Hospital & Healthcare Revenue, Hospital Authority, South Georgia Methodist, Series A, 6.375%, 5/15/2029      | 1,250,000                | <b>1,295,225</b>  |
| <b>Guam 0.8%</b>   |                          |                   |
| Guam, Government Waterworks Authority, Water & Wastewater System Revenue, 6.0%, 7/1/2025   | 1,000,000                | <b>1,105,430</b>  |
| <b>Hawaii 1.0%</b>   |                          |                   |
| Hawaii, State General Obligation:  |                          |                   |
| Series CU, Prerefunded, 5.75%, 10/1/2011 (a)   | 65,000                   | 70,167            |
| Series CU, 5.75%, 10/1/2011 (a)  | 1,185,000                | 1,278,331         |
|  |                          | <b>1,348,498</b>  |
| <b>Illinois 9.3%</b>   |                          |                   |
| Chicago, IL, Core City General Obligation, Board of Education, Series A, 5.75%, 12/1/2017 (a)  | 1,380,000                | 1,519,035         |

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|   |           |                   |
|---|-----------|-------------------|
| Chicago, IL, Housing Authority Revenue, 5.0%, 7/1/2016 (a)  | 1,570,000 | 1,720,798         |
| Illinois, Finance Authority Revenue, Three Crowns Park Plaza, Series A, 5.875%, 2/15/2038   | 1,000,000 | 1,055,550         |
| Illinois, Hospital & Healthcare Revenue, 6.75%, 2/15/2016   | 2,180,000 | 2,407,003         |
| Illinois, State General Obligation, Prerefunded, 6.0%, 1/1/2013 (a)   | 3,315,000 | 3,553,813         |
| Illinois, Upper River Valley Development Authority, Solid Waste Disposal Revenue, Waste Recovery Project, AMT, 5.9%, 2/1/2014           | 1,475,000 | 1,503,585         |
| University Park, IL, Sales & Special Tax Revenue, Governors Gateway Industrial Park, 8.5%, 12/1/2011                                    | 955,000   | 958,534           |
|   |           | <b>12,718,318</b> |
| <b>Indiana 2.6%</b>   |           |                   |
| Indiana, Senior Care Revenue, Health Facilities Finance Authority, Franciscan Eldercare Community Services, 5.875%, 5/15/2029           | 3,000,000 | 3,060,510         |
| Indianapolis, IN, Local Public Improvement Bond Bank, Indianapolis Airport Authority, Series F, AMT, 5.0%, 1/1/2015 (a)                 | 500,000   | 537,815           |
|   |           | <b>3,598,325</b>  |
| <b>Iowa 1.4%</b>  |           |                   |
| Iowa, Cedar Rapids Iowa Revenue First Mortgage Cottage Grove, Series A, 5.875%, 7/1/2028  | 1,245,000 | 1,033,774         |
| Lake City, IA, Senior Care Revenue, Health Care Facility, Opportunity Living Project, 144A, 6.45%, 5/1/2011                             | 875,000   | 887,311           |
|   |           | <b>1,921,085</b>  |
| <b>Kansas 3.1%</b>  |           |                   |
| Manhattan, KS, Senior Care Revenue, Meadowlark Hills Retirement, Series A, 6.5%, 5/15/2028  | 500,000   | 520,270           |
| Overland Park, KS, Industrial Development Revenue, Series A, 7.375%, 1/1/2032   | 2,000,000 | 2,196,420         |
| Wyandotte County, KS, Unified Government Special Obligation Revenue, Sales Tax, Series B, 5.0%, 12/1/2020                               | 1,400,000 | 1,469,846         |
|   |           | <b>4,186,536</b>  |
| <b>Kentucky 0.8%</b>  |           |                   |
| Kentucky, Economic Development Finance Authority, Health System Revenue, Norton Healthcare:<br>Series A, Prerefunded, 6.625%, 10/1/2028 | 790,000   | 881,300           |
| Series A, 6.625%, 10/1/2028   | 210,000   | 234,350           |
|   |           | <b>1,115,650</b>  |
| <b>Louisiana 2.4%</b>   |           |                   |
| Morehouse Parish, LA, Pollution Control Revenue, International Paper Co. Project, Series A, 5.25%, 11/15/2013                           | 3,000,000 | <b>3,211,650</b>  |
| <b>Maryland 9.2%</b>  |           |                   |
| Anne Arundel County, MD, General Obligation, National Business Park Project, Prerefunded, 144A, 7.375%, 7/1/2028                        | 991,000   | 1,133,347         |
| Anne Arundel County, MD, Revenue Lease, Arundel Mills Project, Prerefunded, 7.1%, 7/1/2029  | 1,500,000 | 1,656,975         |
| Maryland, Higher Education Revenue, Collegiate Housing Foundation:<br>Series A, Prerefunded, 5.75%, 6/1/2019                            | 1,000,000 | 1,069,680         |
| Series A, Prerefunded, 5.75%, 6/1/2031  | 1,000,000 | 1,069,680         |
| Maryland, Hospital & Healthcare Revenue, University of Maryland Medical System, 6.75%, 7/1/2030   | 1,000,000 | 1,114,740         |
| Maryland, Project Revenue, Economic Development Corp., Chesapeake Bay, Series B, 7.625%, 12/1/2022                                      | 4,000,000 | 4,457,000         |
| Maryland, State Economic Development Corp. Revenue, Sr. Lien Project, Chesapeake Bay, Series B, 5.25%, 12/1/2031                        | 2,000,000 | 2,049,260         |
|   |           | <b>12,550,682</b> |
| <b>Massachusetts 7.8%</b>   |           |                   |
| Massachusetts, Hospital & Healthcare Revenue, Health & Educational Facilities Authority, Civic Investments, Series A, 9.0%, 12/15/2015  | 1,900,000 | 2,332,554         |
| Massachusetts, Hospital & Healthcare Revenue, Partners Healthcare System, Series C, 5.75%, 7/1/2032                                     | 1,000,000 | 1,089,520         |
| Massachusetts, Industrial Development Revenue, Development Finance Agency, Series A, 7.1%, 7/1/2032                                     | 1,925,000 | 2,014,205         |
| Massachusetts, Project Revenue, Health & Educational Facilities Authority, Jordan Hospital, Series E, 6.75%, 10/1/2033                  | 1,790,000 | 2,001,721         |
| Massachusetts, State General Obligation, Consolidated Loan:<br>Series B, Prerefunded, 5.0%, 4/1/2016 (a)                                | 915,000   | 941,279           |
| Series B, 5.0%, 4/1/2016 (a)  | 2,260,000 | 2,324,907         |
|   |           | <b>10,704,186</b> |
| <b>Michigan 5.3%</b>  |           |                   |
| Kalamazoo, MI, Industrial Development Revenue, Economic Development Corp., Series A, 7.5%, 5/15/2029                                    | 2,000,000 | 2,178,520         |
| Kentwood, MI, Economic Development, Limited Obligation, Holland Home, Series A, 5.375%, 11/15/2036                                      | 1,000,000 | 1,068,350         |
| Michigan, State Hospital Finance Authority Revenue, Henry Ford Health System, Series A, 5.0%, 11/15/2016                                | 1,125,000 | 1,224,169         |
| Saginaw, MI, Hospital & Healthcare Revenue, Hospital Finance Authority, Covenant Medical Center, Series F, 6.5%, 7/1/2030               | 1,000,000 | 1,094,010         |
| Tawas City, MI, Hospital Finance Authority, St. Joseph Health Services:<br>Series A, ETM, 5.6%, 2/15/2013                               | 310,000   | 322,598           |
| Series A, ETM, 5.75%, 2/15/2023   | 1,300,000 | 1,358,370         |
|   |           | <b>7,246,017</b>  |
| <b>Missouri 0.8%</b>  |           |                   |

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|   |           |                   |
|---|-----------|-------------------|
| St. Louis, MO, Special Assessment Revenue, Scullin Redevelopment Area, Series A, 10.0%, 8/1/2010  | 980,000   | <b>1,091,945</b>  |
| <b>Nebraska 0.0%</b>  |           |                   |
| Nebraska, Single Family Housing Revenue, Investment Finance Authority, AMT, Series A, 6.7%, 9/1/2026  | 5,000     | <b>5,061</b>      |
| <b>Nevada 1.5%</b>  |           |                   |
| Las Vegas, NV, Transportation/Tolls Revenue, Las Vegas Monorail Project, 7.375%, 1/1/2030   | 2,000,000 | 2,085,560         |
| Nevada, Single Family Housing Revenue, AMT, Series C, 6.5%, 4/1/2028  | 5,000     | 5,106             |
|   |           | <b>2,090,666</b>  |
| <b>New Hampshire 2.5%</b>   |           |                   |
| New Hampshire, Health & Education Facilities Authority Revenue, Havenwood Heritage Heights, Series A, 5.4%, 1/1/2030                          | 750,000   | 758,333           |
| New Hampshire, Higher Education Revenue, Health & Educational Facilities Authority, New Hampshire College Issue, 7.4%, 1/1/2023               | 1,000,000 | 1,149,940         |
| New Hampshire, Hospital & Healthcare Revenue, Rivermead at Peterborough Retirement Community, 5.75%, 7/1/2028                                 | 1,500,000 | 1,542,390         |
|   |           | <b>3,450,663</b>  |
| <b>New Jersey 4.0%</b>  |           |                   |
| New Jersey, Economic Development Authority Revenue, Cigarette Tax, 5.75%, 6/15/2034   | 290,000   | 315,239           |
| New Jersey, Economic Development Authority Revenue, Motor Vehicle Surplus Revenue:<br>Series A, 5.0%, 7/1/2022 (a)                            | 1,430,000 | 1,544,085         |
| Series A, 5.0%, 7/1/2023 (a)  | 1,770,000 | 1,890,148         |
| New Jersey, Resource Recovery Revenue, Tobacco Settlement Financing Corp., 5.75%, 6/1/2032  | 1,615,000 | 1,719,313         |
|   |           | <b>5,468,785</b>  |
| <b>New Mexico 2.0%</b>  |           |                   |
| Farmington, NM, Pollution Control Revenue, 5.8%, 4/1/2022   | 2,750,000 | <b>2,756,050</b>  |
| <b>New York 14.7%</b>   |           |                   |
| Nassau County, NY, Hospital & Healthcare Revenue, 6.0%, 8/1/2016 (a)  | 2,825,000 | 3,058,232         |
| Nassau County, NY, Project Revenue, North Shore Healthcare Systems Project, Series B, 5.875%, 11/1/2011                                       | 575,000   | 607,160           |
| New York, City Municipal Water Finance Authority, Water & Sewer Systems Revenue, Series F-2, 3.45%*, 6/15/2033                                | 350,000   | 350,000           |
| New York, Core City General Obligation, Series C, 7.0%, 2/1/2010  | 315,000   | 316,679           |
| New York, Sales & Special Tax Revenue, Metropolitan Transportation Authority, Series A, Prerefunded, 5.125%, 4/1/2019 (a)                     | 1,450,000 | 1,605,483         |
| New York, Sales & Special Tax Revenue, Transitional Finance Authority, Series B, 6.0%, 11/15/2013   | 490,000   | 534,668           |
| New York, State General Obligation Lease, Higher Education Revenue, Dormitory Authority, State University, Prerefunded, 5.125%, 5/15/2021 (a) | 1,880,000 | 1,940,912         |
| New York, Transitional Finance Authority, Series B, Prerefunded, 6.0%, 11/15/2013   | 1,510,000 | 1,647,652         |
| New York, Transportation/Tolls Revenue, Triborough Bridge and Tunnel Authority Systems, ETM, Series Y, 6.0%, 1/1/2012                         | 5,000,000 | 5,423,600         |
| New York City, NY, Industrial Development Agency Revenue, Liberty-7, World Trade Center, Series A, 6.25%, 3/1/2015                            | 2,000,000 | 2,135,900         |
| New York City, NY, Industrial Development Agency, Special Facility Revenue, American Airlines, JFK International Airport, AMT, 8.0%, 8/1/2028 | 2,000,000 | 2,473,900         |
|   |           | <b>20,094,186</b> |
| <b>North Carolina 1.8%</b>  |           |                   |
| North Carolina, Electric Revenue, Municipal Power Agency:<br>Series C, 5.375%, 1/1/2017   | 1,000,000 | 1,071,640         |
| Series B, 6.375%, 1/1/2013  | 1,300,000 | 1,404,780         |
|   |           | <b>2,476,420</b>  |
| <b>North Dakota 0.8%</b>  |           |                   |
| Grand Forks, ND, Hospital & Healthcare Revenue, Altru Health Care System, 7.125%, 8/15/2024   | 1,000,000 | <b>1,112,150</b>  |
| <b>Pennsylvania 5.2%</b>  |           |                   |
| Montgomery County, PA, Industrial Development Authority Revenue, Whitmarsh Continuing Care, 6.25%, 2/1/2035                                   | 600,000   | 643,926           |
| Montgomery County, PA, Senior Care Revenue, Higher Education & Health Authority, Philadelphia Geriatric Center, Series A, 7.25%, 12/1/2027    | 2,000,000 | 2,224,040         |
| Pennsylvania, Hospital & Healthcare Revenue, Economic Development Financing Authority, UPMC Health System, Series A, 6.0%, 1/15/2031          | 750,000   | 819,135           |
| Pennsylvania, St. Mary Hospital Authority, Health Systems Revenue, Catholic Health East, Series B, 5.5%, 11/15/2024                           | 1,465,000 | 1,601,479         |
| Philadelphia, Redevelopment Authority Revenue, First Lien Mortgage, Series A, 6.5%, 1/1/2029  | 629,000   | 650,015           |
| Westmoreland County, PA, Senior Care Revenue, Industrial Development Authority, Health Care Facilities-Redstone, Series B, 8.125%, 11/15/2030 | 1,000,000 | 1,160,030         |
|   |           | <b>7,098,625</b>  |
| <b>Puerto Rico 1.6%</b>   |           |                   |
| Commonwealth of Puerto Rico, Government Development Bank, Series C, AMT, 5.25%, 1/1/2015  | 2,000,000 | <b>2,176,240</b>  |
| <b>Rhode Island 1.6%</b>  |           |                   |
| Rhode Island, Special Assessment Revenue, Series A, 6.125%, 6/1/2032  | 2,000,000 | <b>2,153,340</b>  |
| <b>South Carolina 7.0%</b>  |           |                   |

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|  |           |                     |
|--|-----------|---------------------|
| South Carolina, Hospital & Healthcare Revenue, Jobs Economic Development Authority, Bon Secours Health Systems, Inc., Series A, 5.625%, 11/15/2030 | 2,000,000 | 2,155,920           |
| South Carolina, Jobs Economic Development Authority, Hospital Facilities Revenue, Palmetto Health Alliance: Series C, Prerefunded, 7.0%, 8/1/2030  | 1,375,000 | 1,644,060           |
| Series C, 7.0%, 8/1/2030   | 170,000   | 202,157             |
| Series A, Prerefunded, 7.375%, 12/15/2021  | 1,000,000 | 1,157,080           |
| South Carolina, Transportation Infrastructure Bank Revenue, Series A, Prerefunded, 5.375%, 10/1/2024 (a)   | 4,150,000 | 4,394,020           |
|  |           | <b>9,553,237</b>    |
| <b>South Dakota 1.6%</b>   |           |                     |
| South Dakota, Hospital & Healthcare Revenue, Sioux Valley Hospital, Series E, 5.375%, 11/1/2024  | 2,000,000 | <b>2,116,500</b>    |
| <b>Tennessee 2.6%</b>  |           |                     |
| Clarksville, TN, Natural Gas Acquisition Corp., Gas Revenue: 5.0%, 12/15/2017  | 500,000   | 548,295             |
| 5.0%, 12/15/2018   | 540,000   | 594,184             |
| Johnson City, TN, Hospital & Healthcare Revenue, Health & Educational Facilities Board Hospital, Series A, 7.5%, 7/1/2033                          | 2,000,000 | 2,353,780           |
|  |           | <b>3,496,259</b>    |
| <b>Texas 22.3%</b>   |           |                     |
| Abilene, TX, Senior Care Revenue, Health Facilities Development, Sears Methodist Retirement Facilities, Series A, 5.9%, 11/15/2025                 | 2,500,000 | 2,555,475           |
| Austin, TX, Project Revenue, Bergstrom Landhost Enterprises, Inc. Airport Hotel Project, Series A, 6.75%, 4/1/2027                                 | 1,990,000 | 1,518,052           |
| Crowley, TX, School District General Obligation, 5.125%, 8/1/2025  | 4,000,000 | 4,104,640           |
| Hidalgo County, TX, Hospital & Healthcare Revenue, Mission Hospital, Inc. Project, 6.75%, 8/15/2016  | 2,000,000 | 2,083,560           |
| Houston, TX, General Obligation: Series A, Prerefunded, 5.0%, 3/1/2016   | 1,365,000 | 1,389,898           |
| 5.0%, 3/1/2016   | 1,635,000 | 1,658,887           |
| Houston, TX, School District General Obligation, Series A, 5.0%, 2/15/2024   | 2,000,000 | 2,062,040           |
| Houston, TX, Transportation/Tolls Revenue, Special Facilities, Continental Airlines, Inc., AMT, Series E, 6.75%, 7/1/2029                          | 2,000,000 | 2,158,980           |
| Tarrant County, TX, Hospital & Healthcare Revenue, Health Facilities Development Corp., 6.7%, 11/15/2030   | 1,000,000 | 1,121,100           |
| Texas, Industrial Development Revenue, Waste Disposal Authority, AMT, Series A, 6.1%, 8/1/2024   | 1,000,000 | 1,084,670           |
| Texas, Lower Colorado River Authority Revenue, Series B, 6.0%, 5/15/2013 (a)   | 5,000,000 | 5,329,300           |
| Travis County, TX, Health Facilities Development Corp., Retirement Facility Revenue, Querencia Barton Creek Project, 5.65%, 11/15/2035             | 1,250,000 | 1,290,750           |
| Travis County, TX, Hospital & Healthcare Revenue, Ascension Health Credit, Series A, 6.0%, 11/15/2012 (a)  | 3,860,000 | 4,134,446           |
|  |           | <b>30,491,798</b>   |
| <b>Virgin Islands 2.4%</b>   |           |                     |
| Virgin Islands, Sales & Special Tax Revenue, Public Finance Authority, Series A, 6.375%, 10/1/2019   | 3,000,000 | <b>3,300,810</b>    |
| <b>Virginia 1.6%</b>   |           |                     |
| Fairfax County, VA, Hospital & Healthcare Revenue, Economic Development Authority, Greenspring Retirement Community, Series A, 7.25%, 10/1/2019    | 2,000,000 | <b>2,222,240</b>    |
| <b>West Virginia 1.6%</b>  |           |                     |
| West Virginia, Hospital & Healthcare Revenue, Hospital Finance Authority, Charleston Medical Center, Series A, 6.75%, 9/1/2022                     | 390,000   | 431,726             |
| West Virginia, Hospital Finance Authority, Charleston Medical Center, Prerefunded, 6.75%, 9/1/2022   | 1,610,000 | 1,800,801           |
|  |           | <b>2,232,527</b>    |
| <b>Wisconsin 0.9%</b>  |           |                     |
| Wisconsin, Hospital & Healthcare Revenue, Health & Education Facilities Authority, Aurora Health Care, Inc., 6.875%, 4/15/2030                     | 1,000,000 | <b>1,159,400</b>    |
|  |           |                     |
|  |           |                     |
|  |           |                     |
| <b>Total Investment Portfolio</b> (Cost \$185,935,747) <sup>+</sup>  | 149.0     | <b>203,478,602</b>  |
| <b>Other Assets and Liabilities, Net</b>   | 2.3       | <b>3,026,682</b>    |
| <b>Preferred Shares, at Redemption Value</b>   | (51.3)    | <b>(70,000,000)</b> |
| <b>Net Assets Applicable to Common Shareholders</b>  | 100.0     | <b>136,505,284</b>  |

\* 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 rates as of November 30, 2006.

<sup>+</sup> The cost for federal income tax purposes was \$185,256,117. At November 30, 2006, net unrealized appreciation for all securities based on tax cost was \$18,222,485. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$18,706,804 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$484,319.

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(a) Bond is insured by one of these companies:

| Insurance Coverage                   | As a % of Total Investment Portfolio |
|--------------------------------------|--------------------------------------|
| Ambac Financial Group                | 3.0                                  |
| Financial Guaranty Insurance Company | 2.7                                  |
| Financial Security Assurance Inc.    | 5.7                                  |
| MBIA Corp.                           | 7.8                                  |

*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.*

*AMT: Subject to alternative minimum tax.*

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

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

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

## Financial Statements

| <b>Statement of Assets and Liabilities</b> as of November 30, 2006   |                       |
|--|-----------------------|
| <b>Assets</b>  |                       |
| Investments in securities, at value (cost \$185,935,747)   | \$ 203,478,602        |
| Cash   | 10,043                |
| Receivable for investments sold  | 150,000               |
| Interest receivable  | 3,342,661             |
| <b>Total assets</b>  | <b>206,981,306</b>    |
| <b>Liabilities</b>   |                       |
| Payable for investments purchased  | 261,715               |
| Dividends payable  | 13,848                |
| Accrued management fee   | 105,189               |
| Other accrued expenses and payables  | 95,270                |
| <b>Total liabilities</b>   | <b>476,022</b>        |
| <b>Preferred shares, at redemption value</b>   | <b>70,000,000</b>     |
| <b>Net assets applicable to common shareholders</b>  | <b>\$ 136,505,284</b> |
| <b>Net Assets</b>  |                       |
| Net assets applicable to common shareholders consist of:   |                       |
| Undistributed net investment income  | 329,031               |
| Net unrealized appreciation (depreciation) on investments  | 17,542,855            |
| Accumulated net realized gain (loss)   | (2,672,696)           |
| Paid-in capital  | 121,306,094           |
| <b>Net assets applicable to common shareholders</b>  | <b>\$ 136,505,284</b> |
| <b>Net Asset Value</b>   |                       |
| <b>Net Asset Value</b> per common share (\$136,505,284 ÷ 10,936,008 outstanding shares of beneficial interest, \$.01 par value, unlimited number of shares authorized) | <b>\$ 12.48</b>       |

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

| <b>Statement of Operations</b> for the year ended November 30, 2006 |               |
|---|---------------|
| <b>Investment Income</b>  |               |
| Income:   |               |
| Interest  | \$ 11,835,305 |
| Expenses:   | 1,226,314     |

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|   |                      |
|---|----------------------|
| Management fee  |                      |
| Services to shareholders  | 29,382               |
| Custodian fees  | 17,353               |
| Auditing  | 53,023               |
| Legal   | 11,832               |
| Trustees' fees and expenses   | 16,265               |
| Reports to shareholders   | 51,978               |
| Auction service fee   | 178,120              |
| Stock exchange listing fees   | 31,131               |
| Other   | 84,409               |
| Total expenses before expense reductions                                    | 1,699,807            |
| Expense reductions  | (16,049)             |
| Total expenses after expense reductions                                     | 1,683,758            |
| <b>Net investment income</b>  | <b>10,151,547</b>    |
| <b>Realized and Unrealized Gain (Loss) on Investment Transactions</b>       |                      |
| Net realized gain (loss) from investments                                   | 89,512               |
| Net unrealized appreciation (depreciation) during the period on investments | 2,414,327            |
| <b>Net gain (loss) on investment transactions</b>                           | <b>2,503,839</b>     |
| <b>Dividends on preferred shares</b>  | <b>(2,399,019)</b>   |
| <b>Net increase (decrease) in net assets resulting from operations</b>      | <b>\$ 10,256,367</b> |

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

| Statement of Changes in Net Assets   |                          |                       |
|--|--------------------------|-----------------------|
|  | Years Ended November 30, |                       |
| Increase (Decrease) in Net Assets  | 2006                     | 2005                  |
| Operations:  |                          |                       |
| Net investment income  | \$ 10,151,547            | \$ 10,279,156         |
| Net realized gain (loss) on investment transactions  | 89,512                   | 258,506               |
| Net unrealized appreciation (depreciation) on investment transactions during the period                              | 2,414,327                | 1,219,295             |
| Dividends on preferred shares  | (2,399,019)              | (1,631,764)           |
| Net increase (decrease) in net assets resulting from operations  | 10,256,367               | 10,125,193            |
| Distributions to common shareholders from:   |                          |                       |
| Net investment income  | (8,195,230)              | (9,790,616)           |
| Fund share transactions:   |                          |                       |
| Net proceeds from shares issued to common shareholders in reinvestment of distributions                              | 331,414                  | 753,305               |
| Net increase (decrease) in net assets from Fund share transactions   | 331,414                  | 753,305               |
| <b>Increase (decrease) in net assets</b>   | <b>2,392,551</b>         | <b>1,087,882</b>      |
| Net assets at beginning of period  | 134,112,733              | 133,024,851           |
| Net assets at end of period (including undistributed net investment income of \$329,031 and \$950,781, respectively) | <b>\$ 136,505,284</b>    | <b>\$ 134,112,733</b> |
| <b>Other Information</b>   |                          |                       |
| Common shares outstanding at beginning of period   | 10,910,224               | 10,850,831            |
| Shares issued to common shareholders in reinvestment of distributions  | 25,784                   | 59,393                |
| Common shares outstanding at end of period   | 10,936,008               | 10,910,224            |

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

## Financial Highlights

| Years Ended November 30,   | 2006            | 2005            | 2004            | 2003            | 2002            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Selected Per Share Data</b>                                     |                 |                 |                 |                 |                 |
| <b>Net asset value, beginning of period</b>                        | <b>\$ 12.29</b> | <b>\$ 12.26</b> | <b>\$ 12.23</b> | <b>\$ 11.84</b> | <b>\$ 11.83</b> |
| <i>Income (loss) from investment operations:</i>                   |                 |                 |                 |                 |                 |
| Net investment income <sup>a</sup>                                 | .93             | .95             | .98             | .99             | 1.01            |
| Net realized and unrealized gain (loss) on investment transactions | .23             | .13             | .03             | .34             | (.13)           |
| <i>Dividends on preferred shares (common share equivalent):</i>    | (.22)           | (.15)           | (.08)           | (.07)           | (.09)           |

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|  |                   |                 |                 |                 |                 |  |  |  |  |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|--|--|--|--|
| From net investment income   |                   |                 |                 |                 |                 |  |  |  |  |
| <b>Total from investment operations</b>  | .94               | .93             | .93             | 1.26            | .79             |  |  |  |  |
| <i>Less distributions from:</i>  |                   |                 |                 |                 |                 |  |  |  |  |
| Net investment income to common shareholders   | (.75)             | (.90)           | (.90)           | (.87)           | (.78)           |  |  |  |  |
| <b>Net asset value, end of period</b>  | <b>\$ 12.48</b>   | <b>\$ 12.29</b> | <b>\$ 12.26</b> | <b>\$ 12.23</b> | <b>\$ 11.84</b> |  |  |  |  |
| <b>Market value, end of period</b>   | <b>\$12.26</b>    | <b>\$ 14.15</b> | <b>\$ 12.38</b> | <b>\$ 12.62</b> | <b>\$ 11.78</b> |  |  |  |  |
| <b>Total Return</b>  |                   |                 |                 |                 |                 |  |  |  |  |
| Based on net asset value (%) <sup>c</sup>  | 7.80 <sup>b</sup> | 7.59            | 7.98            | 10.85           | 7.00            |  |  |  |  |
| Based on market value (%) <sup>c</sup>   | (8.02)            | 22.68           | 5.58            | 15.16           | 4.86            |  |  |  |  |
| <b>Years Ended November 30, (continued)</b>  | <b>2006</b>       | <b>2005</b>     | <b>2004</b>     | <b>2003</b>     | <b>2002</b>     |  |  |  |  |
| <b>Ratios to Average Net Assets and Supplemental Data</b>  |                   |                 |                 |                 |                 |  |  |  |  |
| Net assets, end of period (\$ millions)  | 137               | 134             | 133             | 132             | 127             |  |  |  |  |
| Ratio of expenses before custodian fee reductions (%) (based on net assets of common shares)   | 1.26              | 1.31            | 1.25            | 1.28            | 1.32            |  |  |  |  |
| Ratio of expenses after custodian fee reductions (%) (based on net assets of common shares)  | 1.25              | 1.31            | 1.25            | 1.28            | 1.32            |  |  |  |  |
| Ratio of expenses before custodian fee reductions (%) (based on net assets of common and preferred shares)   | .83               | .86             | .82             | .83             | .86             |  |  |  |  |
| Ratio of expenses after custodian fee reductions (%) (based on net assets of common and preferred shares)  | .82               | .86             | .82             | .83             | .86             |  |  |  |  |
| Ratio of net investment income (loss) (%) (based on net assets of common shares)   | 7.55              | 7.60            | 8.03            | 8.26            | 8.49            |  |  |  |  |
| Ratio of net investment income (loss) (%) (based on net assets of common and preferred shares)   | 4.97              | 5.01            | 5.25            | 5.36            | 5.48            |  |  |  |  |
| Portfolio turnover rate (%)  | 41                | 19              | 15              | 14              | 7               |  |  |  |  |
| Preferred shares information at end of period:   |                   |                 |                 |                 |                 |  |  |  |  |
| Aggregate amount outstanding (\$ millions)   | 70                | 70              | 70              | 70              | 70              |  |  |  |  |
| Asset coverage per share (\$) <sup>d</sup>   | 73,752            | 72,900          | 72,500          | 72,200          | 70,500          |  |  |  |  |
| Liquidation and market value per share (\$)  | 25,000            | 25,000          | 25,000          | 25,000          | 25,000          |  |  |  |  |
| <sup>a</sup> Based on average common shares outstanding during the period.   |                   |                 |                 |                 |                 |  |  |  |  |
| <sup>b</sup> Total return would have been lower had certain fees not been reduced.   |                   |                 |                 |                 |                 |  |  |  |  |
| <sup>c</sup> Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. 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. |                   |                 |                 |                 |                 |  |  |  |  |
| <sup>d</sup> Asset coverage per share equals net assets of common shares plus the redemption value of the preferred shares divided by the total number of preferred shares outstanding at the end of the period.   |                   |                 |                 |                 |                 |  |  |  |  |

## Notes to Financial Statements

### A. Significant Accounting Policies

DWS Strategic Municipal Income Trust (formerly Scudder 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. Debt securities are valued by independent pricing services approved by the Trustees of the Fund, 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 price obtained from a broker-dealer. 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.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost.

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 Trustees.

In September 2006, FASB released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of November 30, 2006, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

**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. Accordingly, the Fund paid no federal income taxes and no federal income tax provision was required.

At November 30, 2006, the Fund had a net tax basis capital loss carryforward of approximately \$3,352,000, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until November 30, 2010 (\$2,000), November 30, 2011 (\$3,165,000) and November 30, 2012 (\$185,000), the respective expiration dates, whichever occurs first.

During the year ended November 30, 2006, the Fund utilized approximately \$183,000 of its prior year capital loss carryforward.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for the Fund a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Fund is taxable in certain jurisdictions), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006. Management has begun to evaluate the application of the Interpretation to the Fund and is not in a position at this time to estimate the significance of its impact, if any, on the Fund's financial statements.

**Distribution of Income and Gains.** Net investment income of the Fund, if any, 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, 2006, the Fund's components of distributable earnings (accumulated losses) on a tax-basis were as follows:

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|   |                |
|---|----------------|
| Undistributed tax-exempt income                           | \$ 366,860     |
| Capital loss carryforwards                                | \$ (3,352,000) |
| Net unrealized appreciation (depreciation) on investments | \$ 18,222,485  |

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

|                                      | Years Ended November<br>30, |               |
|--------------------------------------|-----------------------------|---------------|
|                                      | 2006                        | 2005          |
| Distributions from tax-exempt income | \$ 10,594,249               | \$ 11,422,380 |

**Preferred Shares.** The Fund has issued and outstanding 2,800 Series T municipal auction rate cumulative preferred shares, at a liquidation value of \$25,000 per share. The preferred shares are senior to and have certain class specific preferences over the common shares. The dividend rate is set through an auction process, and the dividends are generally paid every 7 days. The auction agent will pay each broker-dealer a service charge from funds provided by the Fund ("Auction Service Fee"). 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 designation statement, each preferred share is entitled to one vote and preferred shareholders will vote together with common shareholders as a single class and have the same voting rights.

**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, 2006, purchases and sales of investment securities (excluding short-term investments) aggregated \$83,112,327 and \$86,305,148, respectively.

### C. Related Parties

**Management Agreement.** Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" 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 Management Agreement. The Fund pays a monthly investment management fee of 1/12 of the annual rate of 0.60% of the Fund's average weekly net assets, computed and accrued daily and payable monthly.

**Service Provider Fees.** State Street Bank and Trust Company is the named transfer agent. However, pursuant to a sub-transfer agency agreement between State Street Bank and Trust Company and DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, DWS-SISC is the transfer agent, dividend-paying and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent and dividend-paying agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended

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November 30, 2006, the amount charged to the Fund by DWS-SISC aggregated \$24,079, of which \$6,820 is unpaid.

**Typesetting and Filing Service Fees.** Under an agreement with DeIM, DeIM is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended November 30, 2006, the amount charged to the Fund by DeIM included in the Statement of Operations under "reports to shareholders" aggregated \$8,880, all of which \$4,440 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, is the auction agent with respect to the Preferred Shares. The auction agent will pay 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 year ended November 30, 2006 aggregated \$178,120, of which \$976 is unpaid.

In addition, Deutsche Bank Trust Company Americas, charges an Administration fee for Preferred Shares. The amount charged to the Fund for the year ended November 30, 2006 aggregated \$5,540, all of which has been paid.

### D. Expense Reductions

For the year ended November 30, 2006, the Advisor agreed to reimburse the Fund \$3,156, which represents a portion of the fee savings expected to be realized by the Advisor related to the outsourcing by the Advisor of certain administrative services to an unaffiliated service provider.

In addition, the Fund has entered into an arrangement with its custodian and transfer agent whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended November 30, 2006, the Fund's custodian fees were reduced by \$234 and \$12,659, respectively, for custody and transfer agent credits earned.

### E. Line of Credit

The Fund and several other affiliated funds (the "Participants") share in a \$750 million revolving credit facility administered by JPMorgan Chase Bank N.A. for temporary or emergency purposes. The Participants are charged an annual commitment fee which is allocated, based upon net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement.

### F. Regulatory Matters and Litigation

**Regulatory Settlements.** On December 21, 2006, Deutsche Asset Management ("DeAM") settled proceedings with the Securities and Exchange Commission ("SEC") and the New York Attorney General on behalf of Deutsche Asset Management, Inc. ("DeAM, Inc.") and Deutsche Investment Management Americas Inc. ("DeIM"), the investment advisors to many of the DWS Scudder funds, regarding allegations of improper trading at DeAM and at the legacy Scudder and Kemper organizations prior to their acquisition by DeAM in April 2002. These regulators alleged that although the prospectuses for certain open-end funds ("funds") in the regulators' view indicated that the funds did not permit market timing, DeAM, Inc. and DeIM breached their fiduciary duty to those funds in that their efforts to limit trading activity in the funds were not effective at certain times. The regulators also alleged that DeAM, Inc. and DeIM breached their fiduciary duty to certain funds by entering into certain market timing arrangements with investors. These trading arrangements originated in businesses that existed prior to the currently constituted DeAM organization, which came together as a result of various mergers of the legacy Scudder, Kemper and Deutsche fund groups, and all of the arrangements were terminated prior to the start of the regulatory investigations that began in the summer of

2003. No current DeAM employee approved these trading arrangements. Under the terms of the settlements, DeAM, Inc. and DeIM neither admit nor deny any wrongdoing.

The terms of the SEC settlement, which identified improper trading in the legacy Deutsche and Kemper mutual funds only, provide for payment of disgorgement in the amount of \$17.2 million. The terms of the settlement with the New York Attorney General provide for payment of disgorgement in the amount of \$102.3 million, which is inclusive of the amount payable under the SEC settlement, plus a civil penalty in the amount of \$20 million. The total amount payable by DeAM, approximately \$122.3 million, would be distributed in accordance with a distribution plan to be developed by a distribution consultant. The funds' investment advisors do not believe these amounts will have a material adverse financial impact on them or materially affect their ability to perform under their investment management agreements with the DWS funds. The above-described amounts are not material to Deutsche Bank, and have already been reserved.

Among the terms of the settled orders, DeAM is subject to certain undertakings regarding the conduct of its business in the future, including: formation of a Code of Ethics Oversight Committee to oversee all matters relating to issues arising under the advisors' Code of Ethics; establishment of an Internal Compliance Controls Committee having overall compliance oversight responsibility of the advisors; engagement of an Independent Compliance Consultant to conduct a comprehensive review of the advisors' supervisory compliance and other policies and procedures designed to prevent and detect breaches of fiduciary duty, breaches of the Code of Ethics and federal securities law violations by the advisors and their employees; and commencing in 2008, the advisors shall undergo a compliance review by an independent third party.

In addition, DeAM is subject to certain further undertakings relating to the governance of the mutual funds, including that: at least 75% of the members of the Boards of Trustees/Directors overseeing the DWS Funds continue to be independent of DeAM; the Chairmen of the DWS Funds' Boards of Trustees/Directors continue to be independent of DeAM; DeAM maintain existing management fee reductions for certain funds for a period of five years and not increase management fees for certain funds during this period; the funds retain a senior officer (or independent consultants) responsible for assisting in the review of fee arrangements and monitoring compliance by the funds and the investment advisors with securities laws, fiduciary duties, codes of ethics and other compliance policies, the expense of which shall be borne by DeAM; and periodic account statements, fund prospectuses and the mutual funds' web site contain additional disclosure and/or tools that assist investors in understanding the fees and costs associated with an investment in the funds and the impact of fees and expenses on fund returns.

DeAM has also settled proceedings with the Illinois Secretary of State regarding market timing matters. The terms of the Illinois settlement provide for investor education contributions totaling approximately \$4 million and a payment in the amount of \$2 million to the Securities Audit and Enforcement Fund.

On September 28, 2006, the SEC and the National Association of Securities Dealers ("NASD") announced final agreements in which Deutsche Investment Management Americas Inc. ("DeIM"), Deutsche Asset Management, Inc. ("DeAM, Inc.") and Scudder Distributors, Inc. ("SDI") (now known as DWS Scudder Distributors, Inc.) settled administrative proceedings regarding disclosure of brokerage allocation practices in connection with sales of the Scudder Funds' (now known as the DWS Scudder Funds) shares during 2001-2003. The agreements with the SEC and NASD are reflected in orders which state, among other things, that DeIM and DeAM, Inc. failed to disclose potential conflicts of interest to the fund Boards and to shareholders relating to SDI's use of certain funds' brokerage commissions to reduce revenue sharing costs to broker-dealer firms with whom it had arrangements to market and distribute Scudder Fund shares. These directed brokerage practices were discontinued in October 2003.

Under the terms of the settlements, in which DeIM, DeAM, Inc. and SDI neither admitted nor denied any of the regulators' findings, DeIM, DeAM, Inc. and SDI agreed to pay disgorgement, prejudgment interest and civil penalties in the total amount of \$19.3 million. The portion of the settlements distributed to the funds was approximately \$17.8 million and was paid to the funds as prescribed by the settlement orders based upon the amount of brokerage

commissions from each fund used to satisfy revenue sharing agreements with broker-dealers who sold fund shares. Based on the prescribed settlement order, the Fund was not entitled to a portion of the settlement.

As part of the settlements, DeIM, DeAM, Inc. and SDI also agreed to implement certain measures and undertakings relating to revenue sharing payments including making additional disclosures in the fund Prospectuses or Statements of Additional Information, adopting or modifying relevant policies and procedures and providing regular reporting to the fund Boards.

**Private Litigation Matters.** The matters alleged in the regulatory settlements described above also serve as the general basis of a number of private class action lawsuits involving the DWS funds. These lawsuits name as defendants various persons, including certain DWS funds, the funds' investment advisors and their affiliates, and certain individuals, including in some cases fund Trustees/Directors, officers, and other parties. Each DWS fund's investment advisor has agreed to indemnify the applicable DWS funds in connection with these lawsuits, or other lawsuits or regulatory actions that may be filed making similar allegations.

Based on currently available information, the funds' investment advisors believe the likelihood that the pending lawsuits will have a material adverse financial impact on a DWS fund is remote and such actions are not likely to materially affect their ability to perform under their investment management agreements with the DWS funds.

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities of DWS Strategic Municipal Income Trust (formerly Scudder Strategic Municipal Income Trust) (the "Fund"), including the investment portfolio, as of November 30, 2006, and the related statement of operations 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, 2006, 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 Strategic Municipal Income Trust at November 30, 2006, the results of its operations 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 24, 2007      |  |

## **Tax Information** (Unaudited)

Of the dividends paid from net investment income for the taxable year ended November 30, 2006, 100% are designated as exempt interest dividends for federal income tax purposes.

Please consult 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**

On July 18, 2006, the Board of Trustees appointed Michael Clark as President of the fund.

On November 13, 2006, the Board of Trustees appointed Paul K. Freeman as Chairman of the Board, effective January 1, 2007.

### **Certifications**

The fund's chief executive officer has certified to the New York Stock Exchange that, as of August 10, 2006, he was not aware of any violation by the fund of applicable NYSE corporate governance listing standards. The fund's reports to the Securities and Exchange Commission on Forms N-CSR and N-Q contain certifications by the fund's chief executive officer and chief financial officer that relate to the fund's disclosure in such reports and that are required by rule 30a-2(a) under the 1940 Act.

## **Dividend Repurchase Plan**

### **A. Participation**

We invite you to review the description of the Dividend Reinvestment Plan (the "Plan") which is available to you as a shareholder of DWS Strategic Municipal Income Trust (the "Fund"). If you wish to participate and your shares are held in your own name, simply contact DWS Scudder Investments Service Company, whose address and phone number are provided in Paragraph E, for the appropriate form. If your shares are held in the name of a brokerage firm, bank, or other nominee, you must instruct that nominee to re-register your shares in your name so that you may participate in the Plan, unless your nominee has made the Plan available on shares held by them. Shareholders who so elect will be deemed to have appointed UMB Bank, N.A. ("United Missouri Bank" or "UMB") as their agent and as agent for the Fund under the Plan.

### **B. Dividend Investment Account**

The Fund's transfer agent and dividend disbursing agent or its delegate (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 funds it receives from the following sources: (a) cash dividends and capital gains distributions paid on shares of beneficial interest (the "Shares") of the Fund registered in the participant's name on the books of the Fund; and (b) cash dividends and capital gains distributions paid on Shares registered in the name of the Transfer Agent but credited to the participant's Account. Sources described in clauses (a) and (b) of the preceding sentence are hereinafter called "Distributions."

### **C. Investment of Distribution Funds Held in Each Account**

If on the record date for a Distribution (the "Record Date"), Shares are trading at a discount from net asset value per Share (according to the evaluation most recently made on Shares of the Fund), funds credited to a participant's Account will be used to purchase Shares (the "Purchase"). UMB 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 UMB is unable to acquire sufficient Shares to satisfy the Distribution by the close of business on the Payment Date, the Fund will issue to UMB Shares valued at net asset value per Share (according to the evaluation most recently made on Shares of the Fund) 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.

#### **D. Voluntary Cash Contributions**

A participant may from time to time make voluntary cash contributions to his Account by sending to Transfer Agent a check or money order, payable to Transfer Agent, in a minimum amount of \$100 with appropriate accompanying instructions. (No more than \$500 may be contributed per month.) Transfer Agent will inform UMB of the total funds available for the purchase of Shares and UMB will use the funds to purchase additional Shares for the participant's Account the earlier of: (a) when it next purchases Shares as a result of a Distribution or (b) on or shortly after the first day of each month and in no event more than 30 days after such date except when temporary curtailment or suspension of purchases is necessary to comply with applicable provisions of federal securities laws. Cash contributions received more than fifteen calendar days or less than five calendar days prior to a Payment Date will be returned uninvested. Interest will not be paid on any uninvested cash contributions. Participants making voluntary cash investments will be charged a \$.75 service fee for each such investment and will be responsible for their pro rata share of brokerage commissions.

#### **E. Additional Information**

Address all notices, correspondence, questions, or other communication regarding the Plan, or if you would like a copy of the Plan, to:

**DWS Scudder Investments Service Company**  
P.O. Box 219066  
Kansas City, Missouri 64121-9066  
1-800-294-4366

#### **F. Adjustment of Purchase Price**

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.

#### **G. Determination of Purchase Price**

The cost of Shares and fractional Shares acquired for each participant's Account in connection with a Purchase shall be determined by the average cost per Share, including brokerage commissions as described in Paragraph H hereof, of the Shares acquired by UMB in connection with that Purchase. Shareholders will receive a confirmation showing the average cost and number of Shares acquired as soon as practicable after the Transfer Agent has received or UMB has purchased Shares. The Transfer Agent may mingle the cash in a participant's account with similar funds of other participants of the Fund for whom UMB acts as agent under the Plan.

## **H. Brokerage Charges**

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 UMB's open market purchases in connection with the reinvestment of Distributions. Brokerage charges for purchasing small amounts of Shares for individual Accounts through the Plan can be expected to be less than the usual brokerage charges for such transactions, as UMB will be purchasing Shares for all participants in blocks and prorating the lower commission thus attainable.

## **I. Service Charges**

There is no service charge by the Transfer Agent or UMB to shareholders who participate in the Plan other than service charges specified in Paragraphs D and M hereof. However, the Fund reserves the right to amend the Plan in the future to include a service charge.

## **J. Transfer of Shares Held by Agent**

The Transfer Agent will maintain the participant's Account, hold the additional Shares acquired through the Plan in safekeeping and furnish the participant with written confirmation of all transactions in the Account. Shares in the 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.

## **K. Shares Not Held in Shareholder's Name**

Beneficial owners of Shares which are held in the name of a broker or nominee will not be automatically included in the Plan and will receive all distributions in cash. Such shareholders should contact the broker or nominee in whose name their Shares are held to determine whether and how they may participate in the Plan.

## **L. Amendments**

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate 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 record date for such Distribution, 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 amendment shall be deemed to be accepted by each participant unless, prior to the effective date thereof, the Transfer Agent receives notice of the termination of such participant's account under the Plan in accordance with the terms hereof. The Plan may be terminated by the Fund.

## **M. Withdrawal from Plan**

Shareholders may withdraw from the Plan at any time by giving the Transfer Agent a written notice. If the proceeds are \$100,000 or less and the proceeds are to be payable to the shareholder of record and mailed to the address of record, a signature guarantee normally will not be required for notices by individual account owners (including joint account owners), otherwise a signature guarantee will be required. In addition, if the certificate is to be sent to anyone other than the registered owner(s) at the address of record, a signature guarantee will be required on the 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 in accordance with Paragraph L hereof, 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 UMB to sell his Shares in the Plan and send

the proceeds to the participant, less brokerage commissions and a \$2.50 service fee.

## N. Tax Implications

Shareholders will receive tax information annually for personal records and to assist in preparation of their Federal income tax returns. If Shares are purchased at a discount, the amount of the discount is considered taxable income and is added to the cost basis of the purchased shares.

## Investment Management Agreement Approval

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DeIM" or the "Advisor") in September 2006. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate the Agreement. Over the course of several months, the Contract Review Committee, in coordination with the Fixed-Income Oversight Committee and the Operations Committee of the Board, reviewed comprehensive materials received from the Advisor, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by an independent fee consultant. The Board also received extensive information throughout the year regarding performance and operating results of the Fund. Based on their evaluation of the information provided, the Committees presented their findings and recommendations to the Independent Trustees as a group. The Independent Trustees then reviewed the Committees' findings and recommendations and presented their recommendations to the full Board. Throughout their consideration of the Agreement, the Independent Trustees were advised by their independent legal counsel and by an independent fee consultant.

In connection with the contract review process, the various Committees and the Board considered the factors discussed below, among others. The Board also considered that the Advisor and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious Advisor is in the best interests of the Fund. The Board considered, generally, that shareholders invested in the Fund, or approved the investment management agreement for the Fund, knowing that the Advisor managed the Fund and knowing the investment management fee schedule. In connection with recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business, which resulted in turnover of senior management and other personnel of the Advisor, the Board considered Deutsche Bank's commitment that it will devote to the Advisor and its affiliates all attention and resources that are necessary to provide the Fund with top-quality investment management and shareholder, administrative and product distribution services.

**Nature, Quality and Extent of Services.** The Board considered the nature, extent and quality of services provided under the Agreement, including portfolio management services and administrative services. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of the Advisor to attract and retain high-quality personnel and the organizational depth and stability of the Advisor. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by Lipper Inc. ("Lipper"). The Board considered whether investment results were consistent with the Fund's investment objective and policies. The Board also noted that it has put a process into place of identifying "Focus Funds" (e.g., funds performing poorly relative to their peer group), and receives more frequent reporting and information from the Advisor regarding such funds, along with the Advisor's remedial plans to address underperformance. The Board believes this process is an effective manner of addressing poorly performing funds at this time.

On the basis of this evaluation and the ongoing review of investment results by the Fixed-Income Oversight Committee, the Board concluded that the nature, quality and extent of services provided by the Advisor historically have been and continue to be satisfactory. The Board noted the short-term relative underperformance of the Fund, and

took into account the factors contributing to such performance, steps being taken by the Advisor to improve performance and the Fund's favorable longer-term performance.

**Fees and Expenses.** The Board considered the Fund's management fee rate, operating expenses and total expense ratio, and compared management fees to a peer group and total expenses to a broader peer universe based on information and data supplied by Lipper. The information provided to the Board showed that the Fund's management fee rate was at the 1<sup>st</sup> percentile of the peer group, and that the total expense ratio was at the 63<sup>rd</sup> percentile of the peer universe. The Board also considered the Fund's management fee rate as compared to fees charged by the Advisor and certain of its affiliates for comparable funds and for similarly managed institutional accounts. With respect to institutional accounts, the Board noted that (i) both the mix of services provided and the level of responsibility required under the Agreement were significantly greater as compared to the Advisor's obligations for similarly managed institutional accounts; and (ii) the management fees of institutional accounts are less relevant to the Board's consideration because they reflect significantly different competitive forces from those in the fund marketplace. With respect to other comparable DWS Funds, the Board considered differences in fund and fee structures among the DWS Funds.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by the Advisor. The Board noted that although the Fund's total expense ratio was above the median of the peer universe, the total expense ratio was within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

**Profitability.** The Board reviewed detailed information regarding revenues received by the Advisor under the Agreement. The Board considered the estimated costs and pre-tax profits realized by the Advisor from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Scudder organization with respect to all fund services in totality and by fund. The Board reviewed DeIM's methodology in allocating its costs to the management of the Fund. Although the Board noted the inherently subjective nature of any allocation methodology, the Board received an attestation report from an accounting firm affirming that the allocation methods were consistently applied and were based upon practices commonly used in the investment management industry. Based on the information provided, the Board concluded that the pre-tax profits realized by DeIM in connection with the management of the Fund were not unreasonable.

**Economies of Scale.** The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board considered whether the management fee rate under the Agreement is reasonable in relation to the asset size of the Fund. The Board concluded that the management fee rate reflects an appropriate level of sharing of any economies of scale.

**Other Benefits to DeIM and Its Affiliates.** The Board also considered the character and amount of other incidental benefits received by DeIM and its affiliates, including any fees received by the Advisor for administrative services provided to the Fund. The Board also considered benefits to DeIM related to brokerage and soft-dollar allocations, which pertain primarily to funds investing in equity securities. The Board considered that the Advisor has recently proposed and the Board is evaluating a change in the Advisor's policies to permit the allocation of brokerage to acquire research services from third-party service providers. The Advisor had voluntarily discontinued this practice in 2004. The Board concluded that management fees were reasonable in light of these fallout benefits.

**Regulatory Matters.** The Board also considered information regarding pending regulatory actions against the Advisor and its affiliates related to allegations of market timing, revenue sharing, directed brokerage and other matters. The Board considered that the Advisor informed the Board that it expects to pay approximately \$134 million in connection with final settlement agreements with various federal and state regulators regarding allegations of market timing in the DWS Funds. The Board also considered that the Advisor agreed to pay approximately \$19 million in connection with a final settlement agreement with the Securities and Exchange Commission regarding allegations of directed

brokerage. The Board considered the Advisor's representation that such regulatory actions will not materially impact its ability to perform under the Agreement or materially impact the Fund and that no current DeAM employee approved the trading arrangements. The Board also noted the private lawsuits brought against the DWS Funds in connection with the above allegations and considered the Advisor's commitment to indemnify the DWS Funds against any liability arising from these lawsuits.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of the Agreement continue to be fair and reasonable and that the continuation of the Agreement is in the best interests of the Fund. No single factor was determinative in the Board's analysis.

## Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of November 30, 2006. Each individual's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each individual has engaged in the principal occupation(s) noted in the table for at least the most recent five years, although not necessarily in the same capacity; and (ii) the address of each individual is c/o Deutsche Asset Management, 222 South Riverside Plaza, Chicago, Illinois 60606. Each Board Member's term of office extends until the next shareholders' meeting called for the purpose of electing such Board Members and until the election and qualification of a successor, or until such Board Member sooner dies, retires, resigns or is removed as provided in the governing documents of the fund.

| Independent Board Members   |   |  |
|---|---|--|
| Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served <sup>1</sup>    | Principal Occupation(s) During Past 5 Years and Other Directorships Held  | Number of Funds in Fund Complex Overseen |
| Shirley D. Peterson (1941)<br><br>Chairperson, 2004-present<br><br>Board Member, 1995-present | Retired; formerly, President, Hood College (1995-2000); prior thereto, Partner, Steptoe & Johnson (law firm); Commissioner, Internal Revenue Service; Assistant Attorney General (Tax), US Department of Justice. Directorships: Federal Mogul Corp. (supplier of automotive components and subsystems); AK Steel (steel production); Goodyear Tire & Rubber Co. (April 2004-present); Champion Enterprises, Inc. (manufactured home building); Wolverine World Wide, Inc. (designer, manufacturer and marketer of footwear) (April 2005-present); Trustee, Bryn Mawr College. Former Directorship: Bethlehem Steel Corp. | 68                                       |
| Paul K. Freeman <sup>2</sup> (1950)<br><br>Board Member, 2002-present                         | President, Cook Street Holdings (consulting); Consultant, World Bank/Inter-American Development Bank; formerly, Project Leader, International Institute for Applied Systems Analysis (1998-2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986-1998)   | 68                                       |
| John W. Ballantine (1946)<br><br>Board Member, 1999-present                                   | Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996-1998); Executive Vice President and Head of International Banking (1995-1996). Directorships: Healthways, Inc. (provider of disease and care management services); Portland General Electric (utility company). Former Directorships: First Oak Brook Bancshares, Inc. and Oak Brook Bank   | 68                                       |
| Donald L. Dunaway (1937)<br><br>Board Member, 1980-present                                    | Retired; formerly, Executive Vice President, A.O. Smith Corporation (diversified manufacturer) (1963-1994)  | 68                                       |
| James R. Edgar (1946)<br><br>Board Member, 1999-present                                       | Distinguished Fellow, University of Illinois, Institute of Government and Public Affairs (1999-present); formerly, Governor, State of Illinois (1991-1999). Directorships: Kemper Insurance Companies; John B. Sanfilippo & Son, Inc. (processor/packager/marketer of nuts, snacks and candy products); Horizon Group Properties, Inc.; Youbet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty care products)   | 68                                       |
| Robert B. Hoffman (1936)  | Retired; formerly, Chairman, Harnischfeger Industries, Inc. (machinery for the mining and paper industries) (1999-2000); prior thereto, Vice Chairman and Chief Financial Officer, Monsanto Company (agricultural, pharmaceutical and nutritional/food products) (1994-1999). Directorships: RCP Advisors, LLC (a private equity investment advisory firm)  | 68                                       |

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|                               |   |    |
|-------------------------------|---|----|
| Board Member,<br>1981-present |   |    |
| William McClayton<br>(1944)   | Managing Director of Finance and Administration, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001-present); formerly, Partner, Arthur Andersen LLP (accounting) (1986-2001). Formerly: Trustee, Ravinia Festival; Board of Managers, YMCA of Metropolitan Chicago  | 68 |
| Board Member,<br>2004-present |   |    |
| Robert H. Wadsworth<br>(1940) | President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present). Formerly, Trustee of New York Board DWS Funds; President and Trustee, Trust for Investment Managers (registered investment company) (1999-2002). President, Investment Company Administration, L.L.C. (1992*-2001); President, Treasurer and Director, First Fund Distributors, Inc. (June 1990-January 2002); Vice President, Professionally Managed Portfolios (May 1991-January 2002) and Advisors Series Trust (October 1996-January 2002) (registered investment companies) | 71 |
| Board Member,<br>2004-present | *Inception date of the corporation which was the predecessor to the L.L.C.  |    |

| <b>Officers<sup>3</sup></b>  |  |   |
|--|--|---|
| <b>Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served<sup>1</sup></b>                 | <b>Principal Occupation(s) During Past 5 Years and Other Directorships Held</b>  | <b>Number of Funds in Fund Complex Overseen</b> |
| Michael G. Clark <sup>5</sup> (1965)<br><br>President, 2006-present  | Managing Director <sup>4</sup> , Deutsche Asset Management (2006-present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000) | n/a   |
| Philip J. Collora (1945)<br><br>Vice President and Assistant Secretary, 1986-present                             | Director <sup>4</sup> , Deutsche Asset Management  | n/a   |
| Paul H. Schubert <sup>5</sup> (1963)<br><br>Chief Financial Officer, 2004-present<br><br>Treasurer, 2005-present | Managing Director <sup>4</sup> , Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998)  | n/a   |
| John Millette <sup>6</sup> (1962)<br><br>Secretary, 2001-present   | Director <sup>4</sup> , Deutsche Asset Management  | n/a   |
| Patricia DeFilippis <sup>5</sup> (1963)<br><br>Assistant Secretary, 2005-present                                 | Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003-2005); legal associate, Lord, Abbett & Co. LLC (1998-2003)   | n/a   |
| Elisa D. Metzger <sup>5</sup> (1962)<br><br>Assistant Secretary 2005-present                                     | Director <sup>4</sup> , Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999-2005)   | n/a   |
| Caroline Pearson <sup>6</sup> (1962)<br><br>Assistant Secretary, 1998-present                                    | Managing Director <sup>4</sup> , Deutsche Asset Management   | n/a   |
| Scott M. McHugh <sup>6</sup> (1971)<br><br>Assistant Treasurer, 2005-present                                     | Director <sup>4</sup> , Deutsche Asset Management  | n/a   |
| Kathleen Sullivan D'Eramo <sup>6</sup> (1957)<br><br>Assistant Treasurer, 2003-present                           | Director <sup>4</sup> , Deutsche Asset Management  | n/a   |
| John Robbins <sup>5</sup> (1966)<br><br>Anti-Money Laundering Compliance Officer, 2005-present                   | Managing Director <sup>4</sup> , Deutsche Asset Management (since 2005); formerly, Chief Compliance Officer and Anti-Money Laundering Compliance Officer for GE Asset Management (1999-2005)   | n/a   |
| Robert Kloby <sup>5</sup> (1962)<br><br>Chief Compliance Officer, 2006-present                                   | Managing Director <sup>4</sup> , Deutsche Asset Management (2004-present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000-2004); Vice President, The Prudential Insurance Company of America (1988-2000); E.F. Hutton and Company (1984-1988)   | n/a   |

<sup>1</sup> Length of time served represents the date that each Board Member was first elected to the common board of Board Members which oversees a number of investment companies, including the fund, managed by the Advisor. For the Officers of the fund, the length of time served represents the date that each officer was first elected to serve as an officer of any fund overseen by the aforementioned common board of Board Members.

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<sup>2</sup> *Appointed Chairman of the Board, effective January 1, 2007.*

<sup>3</sup> *As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.*

<sup>4</sup> *Executive title, not a board directorship.*

<sup>5</sup> *Address: 345 Park Avenue, New York, New York 10154.*

<sup>6</sup> *Address: Two International Place, Boston, Massachusetts 02110.*

### Additional Information

|   |   |
|---|---|
| <b>Automated Information Lines</b>      | <b>DWS Scudder Closed-End Fund Info Line</b><br><b>(800) 349-4281</b>   |
| <b>Web Sites</b>                        | <b>www.dws-scudder.com</b><br><br>or visit our Direct Link:<br><br><b>www.cef.dws-scudder.com</b><br><br>Obtain quarterly fact sheets, financial reports, press releases and webcasts when available.<br><br><b>www.cef.dws-scudder/alerts.</b><br><br>Register online to receive email alerts on your DWS funds.   |
| <b>Written Correspondence</b>           | <b>Deutsche Investment Management Americas Inc.</b><br><br>222 South Riverside Plaza<br><br>Chicago, IL 60606   |
| <b>Proxy Voting</b>                     | A description of 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 is available on our Web site <a href="http://www.dws-scudder.com">www.dws-scudder.com</a> (click on "proxy voting" at the bottom of the page) or on the SEC's Web site <a href="http://www.sec.gov">www.sec.gov</a> . To obtain a written copy of the fund's policies and procedures without charge, upon request, call us toll free at 1-800-621-1048. |
| <b>Legal Counsel</b>                    | <b>Vedder, Price, Kaufman &amp; Kammholz, P.C.</b><br><br>222 North LaSalle Street<br><br>Chicago, IL 60601   |
| <b>Dividend Reinvestment Plan Agent</b> | <b>UMB Bank</b><br><br>P.O. Box 410064<br><br>Kansas City, MO 64141-0064  |
| <b>Shareholder Service Agent</b>        | <b>DWS Scudder Investments Service Company</b><br><br>P.O. Box 219066<br><br>Kansas City, MO 64121-9066<br><br><b>(800) 294-4366</b>  |
| <b>Custodian and Transfer Agent</b>     | <b>State Street Bank and Trust Company</b><br><br>225 Franklin Street   |

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|  |   |            |
|--|---|------------|
|  | Boston, MA 02110  |            |
| <b>Independent Registered Public Accounting Firm</b> | Ernst & Young LLP<br>200 Clarendon Street<br>Boston, MA 02116 |            |
| <b>NYSE Symbol</b>                                   | KSM   |            |
| <b>CUSIP Number</b>                                  | Common Shares   | 23338T 101 |
|  | Preferred Shares  | 23338T 200 |

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**ITEM 2. CODE OF ETHICS**

As of the end of the period, November 30, 2006, DWS Strategic Municipal Income Trust has a code of ethics, as defined in Item 2 of Form N-CSR, that applies to its Principal Executive Officer and Principal Financial Officer.

There have been no amendments to, or waivers from, a provision of the code of ethics during the period covered by this report that would require disclosure under Item 2.

A copy of the code of ethics is filed as an exhibit to this Form N-CSR.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT**

The Fund's Board of Directors/Trustees has determined that the Fund has at least one audit committee financial expert serving on its audit committee: Mr. William McClayton, Mr. Donald Dunaway and Mr. Robert Hoffman. Each of these audit committee members is independent, meaning that he is not an interested person of the Fund (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940) and he does not accept any consulting, advisory, or other compensatory fee from the Fund (except in the capacity as a Board or committee member).

An audit committee financial expert is not an expert for any purpose, including for purposes of Section 11 of the Securities Act of 1933, as a result of being designated as an audit committee financial expert. Further, the designation of a person as an audit committee financial expert does not mean that the person has any greater duties, obligations, or liability than those imposed on the person without the audit committee financial expert designation. Similarly, the designation of a person as an audit committee financial expert does not affect the duties, obligations, or liability of

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any other member of the audit committee or board of directors.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### DWS STRATEGIC MUNICIPAL INCOME TRUST

##### FORM N-CSR DISCLOSURE RE: AUDIT FEES

The following table shows the amount of fees that Ernst & Young, LLP ( E&Y ), the Fund's auditor, billed to the Fund during the Fund's last two fiscal years. The Audit Committee approved in advance all audit services and non-audit services that E&Y provided to the Fund.

The Audit Committee has delegated certain pre-approval responsibilities to its Chairman (or, in his absence, any other member of the Audit Committee).

##### Services that the Fund's Auditor Billed to the Fund

| Fiscal Year Ended | Audit-Related Fees Billed to Fund | Tax Fees Billed to Fund | All Other Fees Billed to Fund |
|-------------------|-----------------------------------|-------------------------|-------------------------------|
| November 30 2006  | \$46,590                          | \$6,353                 | \$0                           |
| 2005              | \$45,248                          | \$6,170                 | \$0                           |

The above "Tax Fees" were billed for professional services rendered for tax return preparation.

##### Services that the Fund's Auditor Billed to the Adviser and

##### Affiliated Fund Service Providers

The following table shows the amount of fees billed by E&Y to Deutsche Investment Management Americas, Inc. ( DeIM or the Adviser ), and any entity controlling, controlled by or under common control with DeIM ( Control Affiliate ) that provides ongoing services to the Fund ( Affiliated Fund Service Provider ), for engagements directly related to the Fund's operations and financial reporting, during the Fund's last two fiscal years.

| Fiscal Year Ended | Audit-Related Fees Billed to Adviser and Affiliated Fund Service Providers | Tax Fees Billed to Adviser and Affiliated Fund Service Providers | All Other Fees Billed to Adviser and Affiliated Fund Service Providers |
|-------------------|--|--|--|
| November 30 2006  | \$80,000   | \$316,254  | \$0  |
| 2005              | \$406,000  | \$70,570   | \$0  |

The Audit-Related Fees were billed for services in connection with agreed upon procedures related to fund mergers and the above Tax Fees were billed in connection with tax compliance services and agreed upon procedures. Non-Audit Services

The following table shows the amount of fees that E&Y billed during the Fund's last two fiscal years for non-audit services. The Audit Committee pre-approved all non-audit services that E&Y provided to the Adviser and any Affiliated Fund Service Provider that related directly

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to the Fund's operations and financial reporting. The Audit Committee requested and received information from E&Y about any non-audit services that E&Y rendered during the Fund's last fiscal year to the Adviser and any Affiliated Fund Service Provider. The Committee considered this information in evaluating E&Y's independence.

| Fiscal Year Ended | Total Non-Audit Fees Billed to Fund | Total Non-Audit Fees billed to Adviser and Affiliated Fund Service Providers (engagements related directly to the operations and financial reporting of the Fund) | Total Non-Audit Fees billed to Adviser and Affiliated Fund Service Providers (all other engagements) | Total of (A), (B) and (C) |
|-------------------|-------------------------------------|---|--|---------------------------|
| November 30       | (A)                                 | (B)   | (C)  |                           |
| 2006              | \$6,353                             | \$316,254   | \$948,620  | \$1,271,227               |
| 2005              | \$6,170                             | \$70,570  | \$40,586   | \$117,326                 |

All other engagement fees were billed for services in connection with internal control reviews, agreed upon procedures and tax compliance for DeIM and other related entities that provide support for the operations of the fund.

In connection with the audit of the 2005 and 2006 financial statements, the Fund entered into an engagement letter with E&Y. The terms of the engagement letter required by E&Y, and agreed to by the Audit Committee, include provisions in which the parties consent to the sole jurisdiction of federal courts in New York, Boston or the Northern District of Illinois, as well as a waiver of right to a trial by jury and an exclusion of punitive damages.

### **ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS**

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The registrant's audit committee consists of William McClayton (Chairman), Robert B. Hoffman, and Donald L. Dunaway.

### **ITEM 6. SCHEDULE OF INVESTMENTS**

Not Applicable

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

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**Proxy Voting Guidelines.** The Fund has delegated proxy voting responsibilities to its investment advisor, subject to the Board's general oversight. The Fund has delegated proxy voting to the advisor with the direction that proxies should be voted consistent with the Fund's best economic interests. The advisor has adopted its own Proxy Voting Policies and Procedures (Policies), a Proxy Voting Desktop Manual (Manual), and Proxy Voting Guidelines (Guidelines) for this purpose. The Policies address, among other things, conflicts of interest that may arise between the interests of the Fund, and the interests of the advisor and its affiliates. The Manual sets forth the procedures that the advisor has implemented to vote proxies, including monitoring for corporate events, communicating with the fund's custodian regarding proxies, considering the merits of each proposal, and executing and recording the proxy vote. The Guidelines set forth the advisor's general position on various proposals, such as:

**Shareholder Rights** The advisor generally votes against proposals that restrict shareholder rights.

**Corporate Governance** The advisor generally votes for confidential and cumulative voting and against supermajority voting requirements for charter and bylaw amendments. The advisor generally votes for proposals to restrict a chief executive officer from serving on more than three outside board of directors. The advisor generally votes against proposals that require a company to appoint a chairman who is an independent director.

**Anti-Takeover Matters** The advisor generally votes for proposals that require shareholder ratification of poison pills or that request boards to redeem poison pills, and votes against the adoption of poison pills if they are submitted for shareholder ratification. The advisor generally votes for fair price proposals.

**Routine Matters** The advisor generally votes for the ratification of auditors, procedural matters related to the annual meeting, and changes in company name, and against bundled proposals and adjournment.

The general provisions described above do not apply to investment companies. The advisor generally votes proxies solicited by investment companies in accordance with the recommendations of an independent third-party, except for proxies solicited by or with respect to investment companies for which the advisor or an affiliate serves as investment advisor or principal underwriter (affiliated investment companies). The advisor votes affiliated investment company proxies in the same proportion as the vote of the investment company's other shareholders (sometimes called mirror or echo voting). Master fund proxies solicited from feeder funds are voted in accordance with applicable requirements of the Investment Company Act of 1940.

Although the Guidelines set forth the advisor's general voting positions on various proposals, the advisor may, consistent with the Fund's best interests, determine under some circumstances to vote contrary to those positions.

The Guidelines on a particular issue may or may not reflect the view of individual members of the board, or of a majority of the board. In addition, the Guidelines may reflect a voting position that differs from the actual practices of the public companies within the Deutsche Bank organization or of the investment companies for which the advisor or an affiliate serves as investment advisor or sponsor.

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The advisor may consider the views of a portfolio company's management in deciding how to vote a proxy or in establishing general voting positions for the Guidelines, but management's views are not determinative.

As mentioned above, the Policies describe the way in which the advisor resolves conflicts of interest. To resolve conflicts, the advisor, under normal circumstances, votes proxies in accordance with its Guidelines. If the advisor departs from the Guidelines with respect to a particular proxy or if the Guidelines do not specifically address a certain proxy proposal, a committee established by the advisor will vote the proxy. Before voting any such proxy, however, the committee will exclude from the voting discussions and determinations any member who is involved in or aware of a material conflict of interest. If, after excluding any and all such members, there are fewer than three voting members remaining, the advisor will engage an independent third party to vote the proxy or follow the proxy voting recommendations of an independent third party.

Under certain circumstances, the advisor may not be able to vote proxies or the advisor may find that the expected economic costs from voting outweigh the benefits associated with voting. For example, the advisor may not vote proxies on certain foreign securities due to local restrictions or customs. The advisor generally does not vote proxies on securities subject to share blocking restrictions.

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

#### **Portfolio Manager Team Disclosure**

The Fund is managed by a Team of investment professionals who collaborate to implement the Fund's investment strategy. The Team is led by a Lead Portfolio Manager who is responsible for developing the Fund's investment strategy. Each Portfolio Manager on the team has authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio construction techniques, portfolio risk assessment, and the management of daily cash flows in accordance with portfolio holdings.

The following individuals handle the day-to-day management of the fund.

Philip G. Condon, Managing Director of Deutsche Asset Management and Lead Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1983 and the fund in 1999.

Over 29 years of investment industry experience.

BA and MBA, University of Massachusetts at Amherst.

Rebecca L. Flinn, Vice President of Deutsche Asset Management and Portfolio Manager of the fund.

Joined Deutsche Asset Management in 1986 and the fund in 1999.

Over 20 years of investment industry experience.

BA, University of Redlands, California.

### **Compensation of Portfolio Managers**

The Fund has been advised that the Advisor seeks to offer its investment professionals competitive short-term and long-term compensation. Portfolio managers and research professionals are paid (i) fixed base salaries, which are linked to job function, responsibilities and financial services industry peer comparison, and (ii) variable compensation, which is linked to investment performance, individual contributions to the team and DWS Scudder's and Deutsche Bank's financial results. Variable compensation may include a cash bonus incentive and participation in a variety of long-term equity programs (usually in the form of Deutsche Bank equity).

Bonus and long-term incentives comprise a greater proportion of total compensation as an investment professional's seniority and compensation levels increase. Top performing investment professionals earn a total compensation package that is highly competitive, including a bonus that is a multiple of their base salary. The amount of equity awarded under the long-term equity programs is generally based on the individual's total compensation package and may comprise from 0%-40% of the total compensation award. As incentive compensation increases, the percentage of compensation awarded in Deutsche Bank equity also increases. Certain senior investment professionals may be subject to a mandatory diverting of a portion of their equity compensation into proprietary mutual funds that they manage.

To evaluate its investment professionals, the Advisor uses a Performance Management Process. Objectives evaluated by the process are related to investment performance and generally take into account peer group and benchmark related data. The ultimate goal of this process is to link the performance of investment professionals with client investment objectives and to deliver investment performance that meets or exceeds clients risk and return objectives. When determining total compensation, the Advisor considers a number of quantitative and qualitative factors such as:

DWS Scudder performance and the performance of Deutsche Asset Management, quantitative measures which include 1, 3 and 5 year pre-tax returns versus benchmark (such as the benchmark used in the prospectus) and appropriate peer group, taking into consideration risk targets. Additionally, the portfolio manager's retail/institutional asset mix is weighted, as appropriate for evaluation purposes. Qualitative measures include adherence to the investment process and individual contributions to the process, among other things. In addition, the Advisor assesses compliance, risk management and teamwork skills.

Other factors, including contributions made to the investment team as well as adherence to compliance, risk management, and "living the values" of the Advisor, are part of a discretionary component which gives management the ability to reward these behaviors on a subjective basis through bonus incentives.

In addition, the Advisor analyzes competitive compensation levels through the use of extensive market data surveys. Portfolio manager compensation is reviewed and may be modified each year as appropriate to reflect changes in the market, as well as to adjust the factors used to determine overall compensation to promote good sustained investment performance.

### **Fund Ownership of Portfolio Managers**

The following table shows the dollar range of shares owned beneficially and of record by each member of the Fund's portfolio management team in the Fund as well as in all DWS Funds as a group (i.e. those funds advised by Deutsche

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Asset Management or its affiliates), including investments by their immediate family members sharing the same household and amounts invested through retirement and deferred compensation plans. This information is provided as of the Fund's most recent fiscal year end.

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| Name of Portfolio Manager | Dollar Range of   |   |
|---------------------------|-------------------|---|
|                           | Fund Shares Owned | Dollar Range of All DWS Fund Shares Owned |
| Philip G. Condon          | \$0               | Over \$1,000,000                          |
| Rebecca L. Flinn          | \$0               | \$500,001 - \$1,000,000                   |

**Conflicts of Interest**

In addition to managing the assets of the Fund, the Fund's portfolio managers may have responsibility for managing other client accounts of the Advisor or its affiliates. The tables below show, for each portfolio manager, the number and asset size of (1) SEC registered investment companies (or series thereof) other than the Fund, (2) pooled investment vehicles that are not registered investment companies and (3) other accounts (e.g., accounts managed for individuals or organizations) managed by each portfolio manager. The tables also show the number of performance based fee accounts, as well as the total assets of the accounts for which the advisory fee is based on the performance of the account. This information is provided as of the Fund's most recent fiscal year end.

**Other SEC Registered Investment Companies Managed:**

| Name of Portfolio Manager | Number of Registered Investment Companies | Total Assets of Registered Investment Companies | Number of Investment Company Accounts with Performance-Based Fee | Total Assets of Performance- Based Fee Accounts |
|---------------------------|---|---|--|---|
| Philip G. Condon          | 8   | \$8,293,976,996                                 | None   | None  |
| Rebecca L. Flinn          | 2   | \$1,324,985,006                                 | None   | None  |

**Other Pooled Investment Vehicles Managed:**

| Name of Portfolio Manager | Number of Pooled Investment Vehicles | Total Assets of Pooled Investment Vehicles | Number of Pooled Investment Vehicle Accounts with Performance-Based Fee | Total Assets of Performance- Based Fee Accounts |
|---------------------------|--------------------------------------|--|---|---|
| Philip G. Condon          | None                                 | None                                       | None  | None  |
| Rebecca L. Flinn          | None                                 | None                                       | None  | None  |

**Other Accounts Managed:**

| <b>Name of Portfolio Manager</b> | <b>Number of Other Accounts</b> | <b>Total Assets of Other Accounts</b> | <b>Number of Other Accounts with Performance- Based Fee</b> | <b>Total Assets of Performance- Based Accounts</b> |
|----------------------------------|---------------------------------|---------------------------------------|---|--|
| Philip G. Condon                 | None                            | None                                  | None  | None   |
| Rebecca L. Flinn                 | None                            | None                                  | None  | None   |

In addition to the accounts above, an investment professional may manage accounts in a personal capacity that may include holdings that are similar to, or the same as, those of the Funds. The Advisor has in place a Code of Ethics that is designed to address conflicts of interest and that, among other things, imposes restrictions on the ability of portfolio managers and other access persons to invest in securities that may be recommended or traded in the Funds and other client accounts.

Real, potential or apparent conflicts of interest may arise when a portfolio manager has day-to-day portfolio management responsibilities with respect to more than one fund or account, including the following:

Certain investments may be appropriate for the Fund and also for other clients advised by the Advisor, including other client accounts managed by the Fund's portfolio management team. Investment decisions for the Fund and other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, availability of cash for investment and the size of their investments generally. A particular security may be bought or sold for only one client or in different amounts and at different times for more than one but less than all clients. Likewise, because clients of the Advisor may have differing investment strategies, a particular security may be bought for one or more clients when one or more other clients are selling the security. The investment results achieved for the Fund may differ from the results achieved for other clients of the Advisor. In addition, purchases or sales of the same security may be made for two or more clients on the same day. In such event, such transactions will be allocated among the clients in a manner believed by the Advisor to be most equitable to each client, generally utilizing a pro rata allocation methodology. In some cases, the allocation procedure could potentially have an adverse effect or positive effect on the price or amount of the securities purchased or sold by the Fund. Purchase and sale orders for the Fund may be combined with those of other clients of the Advisor in the interest of achieving the most favorable net results to the Fund and the other clients.

To the extent that a portfolio manager has responsibilities for managing multiple client accounts, a portfolio manager will need to divide time and attention among relevant accounts. The Advisor attempts to minimize these conflicts by aligning its portfolio management teams by investment strategy and by employing similar investment models across multiple client accounts.

In some cases, an apparent conflict may arise where the Advisor has an incentive, such as a performance-based fee, in managing one account and not with respect to other accounts it manages. The Advisor will not determine allocations based on whether it receives a performance-based fee from the client. Additionally, the Advisor has in place supervisory oversight processes to periodically monitor performance deviations for accounts with like strategies.

The Advisor and its affiliates and the investment team of the Funds may manage other mutual funds and separate accounts on a long-short basis. The simultaneous management of long and short portfolios creates potential conflicts of interest including the risk that short sale activity could adversely affect the market value of the long positions (and vice versa), the risk arising from sequential orders in long and short positions, and the risks associated with receiving opposing orders at the same time. The Advisor has adopted procedures that it believes are reasonably designed to mitigate these potential conflicts of interest. Included in these procedures are specific guidelines developed to ensure fair and equitable treatment for all clients whose accounts are managed by each Fund's portfolio management team. The Advisor and the portfolio management team have established monitoring procedures, a protocol for supervisory reviews, as well as compliance oversight to ensure that potential conflicts of interest relating to this type of activity are properly addressed.

The Advisor is owned by Deutsche Bank AG, a multi-national financial services company. Therefore, the Advisor is affiliated with a variety of entities that provide and/or engage in commercial banking, insurance, brokerage, investment banking, financial advisory, broker-dealer activities (including sales and trading), hedge funds, real estate and private equity investing, in addition to the provision of investment

management services to institutional and individual investors. Since Deutsche Bank AG, its affiliates, directors, officers and employees (the Firm) are engaged in businesses and have interests other than managing asset management accounts, such other activities involve real, potential or apparent conflicts of interest. These interests and activities include potential advisory, transactional and financial activities and other interests in securities and companies that may be directly or indirectly purchased or sold by the Firm for its clients' advisory accounts. These are considerations of which advisory clients should be aware and which may cause conflicts that could be to the disadvantage of the Advisor's advisory clients. The Advisor has instituted business and compliance policies, procedures and disclosures that are designed to identify, monitor and mitigate conflicts of interest and, as appropriate, to report them to the Fund's Board.

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

| Period                           | (a)<br>Total Number of Shares Purchased | (b)<br>Average Price Paid per Share | (c)<br>Total Number of Shares Purchased as Part of Public Offering |
|----------------------------------|---|-------------------------------------|--|
| 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  |
| June 1 through June 30           | n/a                                     | n/a                                 | n/a  |
| July 1 through July 31           | n/a                                     | n/a                                 | n/a  |
| August 1 through August 31       | n/a                                     | n/a                                 | n/a  |
| September 1 through September 30 | n/a                                     | n/a                                 | n/a  |
| October 1 through October 31     | n/a                                     | n/a                                 | n/a  |
| November 1 through November 30   | n/a                                     | n/a                                 | n/a  |
| Total                            | n/a                                     | n/a                                 | n/a  |

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

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 Procedures and Guidelines. Shareholders may recommend candidates for Board positions by forwarding their correspondence by U.S. mail or courier service to the Fund's Secretary for the attention of the Chairman of the Nominating and Governance Committee, Two International Place, Boston, MA 02110. Suggestions for candidates must include a resume of the candidate.

**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 registrant's last half-year (the registrant's second fiscal half-year in the case of the annual 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) Code of Ethics pursuant to Item 2 of Form N-CSR is filed and attached hereto as EX-99.CODE ETH.

(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.

Form N-CSR Item F

**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/Michael G. Clark  
Michael G. Clark

President

Date: January 29, 2007

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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.

Registrant: DWS Strategic Municipal Income Trust

By: /s/Michael G. Clark  
Michael G. Clark  
President

Date: January 29, 2007

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

Date: December 29, 2006